

**HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING
NOVEMBER 14, 2012
APPLICATION SUMMARY**

NAME OF PROJECT: Shallowford Healthcare, LLC

PROJECT NUMBER: CN1207-032

ADDRESS: 7429 Shallowford Road
Chattanooga (Hamilton County), Tennessee 37421

LEGAL OWNER: Byron DeFoor
7201 Shallowford Road
Chattanooga (Hamilton County), Tennessee 37421

OPERATING ENTITY: Grace Healthcare, LLC
7201 Shallowford Road, Suite 200
Chattanooga, (Hamilton County), Tennessee 37421

CONTACT PERSON: E. Graham Baker, Jr.
(615) 370-3380

DATE FILED: July 10, 2012

PROJECT COST: \$4,631,397.25

FINANCING: Cash Reserves

REASON FOR FILING: The establishment of a 30 bed skilled nursing home, in which all beds will be dually certified for Medicare and Medicaid. *The 30 nursing home beds are subject to the 125 bed Nursing Home Bed Pool for the July 2012 to June 2013 state fiscal year period.*

DESCRIPTION:

Shallowford Healthcare, LLC is seeking approval to establish a 30 bed skilled nursing facility in which all beds will be dually certified for Medicare and Medicaid at 7429 Shallowford Road Street, Chattanooga (Hamilton County). These beds are being requested from the 2012-2013 125 bed nursing home bed pool.

**SHALLOWFORD HEALTHCARE, LLC
CN1207-032
November 14, 2012
PAGE 1**

4. "Service Area" shall mean the county or counties represented on an application as the reasonable area to which a health care institution intends to provide services and/or in which the majority of its service recipients reside. A majority of the population of a service area for any nursing home should reside within 30 minutes travel time from that facility.

The applicant's proposed project will be located in Chattanooga, the population center of Hamilton County.

It appears the application meets this criterion.

5. The HSDA may consider approving new nursing home beds in excess of the need standard for a service area, but the following criteria must be considered:

- a. All outstanding CON projects in the proposed service area resulting in a net increase in beds are licensed and in operation, and

Since the Net Nursing Home Bed Need for Hamilton County is 735, the applicant's request for thirty beds is not in excess of the nursing home bed need standard for the service area.

It appears this criterion does not apply to the proposed project.

- b. All nursing homes that serve the same service area population as the applicant have an annualized occupancy in excess of 90%.

As in 3.a., this criterion does not apply to the proposed project.

B. Occupancy and Size Standards:

1. A nursing home should maintain an average annual occupancy rate for all licensed beds of at least 90 percent after two years of operation.

The applicant projects that nursing home's occupancy rate for 30 beds will be 76.0% in Year One increasing to 96.7% in Year Two.

SHALLOWFORD HEALTHCARE, LLC

CN1207-032

November 14, 2012

PAGE 3

SUMMARY:

The applicant proposes to renovate an existing facility, owned and operated by the owner of the applicant that currently provides residential and non-residential mental health and alcohol and drug detoxification and rehabilitation treatment services. The applicant states that the facility was originally built as a 60-bed assisted living facility. The applicant states that no residential patient will be forced to leave the facility before the end of their respective scheduled treatment plans. Placement assistance will be provided to any patient or client who needs it.

The applicant was recently asked to explain why the alternative of converting a mental health residential treatment facility to a nursing home was selected. The applicant's response by email is as follows:

Focus of Tennessee operates with 48 licensed beds. The average annual occupancy has ranged from 31.3% in 2010 to 39.6% in 2012, which shows that the facility has been underutilized. Further, a significant number of patients are from outside the immediate southeast Tennessee area, including other states. Therefore, the facility owner believes more area residents will be served in a skilled nursing center than in a mental health/chemical dependency facility.

In addition to inadequate local demand for mental health services, skilled nursing services are the core business of the applicant as evidenced by its investment in and management of approximately 50 nursing and senior care facilities. The owner's present involvement with mental health treatment centers is very limited, with only 3 in-patient locations. Consequently, converting the Shallowford Road location to a skilled nursing facility better aligns the facility with the owner's other business interest.

This is the second of two applications filed (in June 2012 the applicant filed CN1206-028, for a thirty (30) bed nursing home requesting the beds from the 2011-2012 125 Nursing Home Bed Pool) for a thirty (30) bed nursing home. The applicant's intent is to obtain approval for both applications so that the result will be the establishment of one 60 bed nursing home.

The applicant states that the nursing home will be a one floor facility containing approximately 38,000 gross square feet. According to the floor plan in the application the nursing home will consist of two 19 room/30 bed wings with a central core that will include dining activity, therapy gym, beauty/barber shop, kitchen, multi-purpose room, and administrative offices. Each 30 bed wing will have 8 private rooms and 11 semi-private rooms. The applicant did state in a

SHALLOWFORD HEALTHCARE, LLC

CN1207-032

November 14, 2012

PAGE 5

this section of the county seem to have higher average occupancy rates than those facilities in other sections of the county.

- The applicant also point out that during the last nine years there have been 1,125 nursing home beds available with 586 being approved, 138 being denied and 122 beds withdrawn. The applicant believes this is a clear indication that facilities are applying for beds only when it is felt the beds are needed, not just because the beds are available. The applicant states that this is the case with this particular application.

The Long-term Care Community Choices Act of 2008, TCA 71-5-1407 developed level of care criteria for new nursing facility admissions which ensure that the most intensive level of long-term care services is provided to persons with the highest level of need and for persons who meet a lesser level of care, i.e., who do not meet new nursing facility level-of-care criteria, but are "at risk" of institutional care, qualify for a more moderate package of Medicaid-reimbursed home and community-based waiver services up to a specified enrollment cap. The two components of level of care eligibility are medical necessity of care and need for inpatient care. As of July 1, 2012 TennCare instituted a new policy changing the requirements of being medically eligible for NF (non-skilled) nursing services by changing what was a requirement of having only one deficiency in activities of daily living (ADL) to be medically eligible to a weighted system that measures the level of deficiency across a defined group of ADLs.

The applicant was asked to discuss in a supplemental request for information the impact the CHOICES Act will have on nursing home utilization especially since data in the Joint Annual Reports indicate a steady decline in patient days since 2008. It was specifically noted to the applicant that Medicaid-eligible persons now have the option of receiving care in their own home. The applicant believes the CHOICES program will have more of an impact on NF (non-skilled) care which will delay individuals to enter nursing homes and be in need of skilled care at the time of admission. The applicant's full response can be found in Supplemental 1.

An email from a TennCare representative to Melanie Hill refutes the increased need for skilled care by stating*"while it is likely that the acuity of Medicaid residents will increase over time, this does not equate to the need for more skilled beds, since by definition, a facility must be certified and willing to serve all Medicaid residents, regardless of their level of reimbursement.*

SHALLOWFORD HEALTHCARE, LLC

CN1207-032

November 14, 2012

PAGE 7

- (2) Life Care-Hixson is a 108 bed replacement/relocation (CN806-038 and CN0904-016) of 78 bed Life Care Missionary Ridge
- (3) Reduced licensed beds from 160 to 130 in conjunction with adding 30 beds at Life Care-Hixson
- (4) Licensed for 474 beds prior to 2012.

Source: Joint Annual Reports, 209-2011, 2011 Provisional

The table above illustrates that nursing home utilization in Hamilton County has been declining. Total patient days of nursing home services provided in 2009 was 562,604 which have declined 8.5% to 514,700 patient days in 2011. Of the eleven nursing homes currently in operation in Hamilton County, five experienced increases in utilization while the other six experienced some decline in utilization. Overall occupancy increased in 2010 mainly due to 153 beds going into inactive status. Occupancy in 2011 returned to 2009 levels of approximately 84%. Licensed nursing home beds available in 2009 were 1,842. Nursing home beds in 2011 reduced to 1,689. In 2012 nursing home beds are at 1,659; however there are 150 approved but yet to be implemented beds in Hamilton County.

As reported by the Department of Health Report and review of the Nursing Home Joint Annual Reports, the Hamilton County nursing homes in 2010, had 303 Medicare certified beds and 1,154 dually certified beds for a total of 1,457 beds available to receive skilled nursing patients. The Hamilton County average daily census (ADC) for SNF Medicare patients was 315 patients. ADC for Skilled-Medicaid patients was 139, the ADC for Skilled Care patients being paid for by all other payors was 96. The total ADC for skilled nursing patients was 550. Of the 1,457 Medicare skilled beds in Hamilton County, these beds were used approximately 38% of the time for skilled patients. The ADC for NF (non-skilled which includes Medicaid and non-certified) is 915 patients. Thus, the total ADC for the county's 1,689 nursing home beds was 1,465 patients.

The applicant initially reported 100% skilled utilization for the proposed project and would enter a transfer agreement for Medicaid patients requiring a lower level of care. In a request for supplemental information the applicant was informed that due to the Linton Court Order, a facility dually certified for Medicare/TennCare would be expected to provide services to TennCare patients requiring less than skilled nursing services. As noted on page 3 of the Department of Health report the Linton Court Order resulted in District Court instructing the State of Tennessee to submit a remedial plan that included a provision requiring Medicaid providers to certify all available licensed nursing home beds within their facilities and to admit residents on a first-come, first-serve basis regardless of their level of care. In fact in the same email from a

SHALLOWFORD HEALTHCARE, LLC

CN1207-032

November 14, 2012

PAGE 9

(\$387.61 per patient day) in Year One of the project, increasing by approximately 30.7% to \$4,216,590 on an occupancy rate of 96.7% in Year Two. The applicant projects a net operating loss of (\$795,010.80) in project Year One, and a net operating loss of (\$480,991.10) in Year Two.

Note to Agency members: If the previously filed application for 30 nursing home beds (CN1206-028) is approved and this application is approved, then the application intends to build a 60 bed nursing home. If the applicant is granted permission to build a 60 bed nursing home then the applicant projects a net operating income of \$49,773.09 in Year 1 and \$452,097.94 in Year 2. If the applicant facility was only Medicare certified and both applications were approved allowing the construction of a 60 bed facility, the applicant projects a net loss for Year 1 of (\$116,161.84) improving to a net income of \$549,627.43 in Year 2.

The applicant indicates it will apply for both Medicare and TennCare/Medicaid certification. Participation in the Medicare program during the first year of operation is anticipated to be \$2,338,146 (72.5% of total gross operating revenues), while participation in Medicaid is estimated to be \$754,200 (23.4% of total gross operating revenues).

The applicant expects to contract with UnitedHealthcare Community Plan, BlueCare, and TennCare Select.

Direct care nursing staff for the 30 bed nursing home in the first year of the project's opening will consist of a total of 13.0 full-time equivalent (FTE) employees, including 2.0 FTE registered nurses, 3.0 FTE licensed practical nurses, and 8.0 FTE certified nursing assistants. The applicant will contract for physical, occupational and speech therapy according to census and rehabilitation needs. The applicant will hire social worker staff, activities director staff, and other related positions. The applicant has not identified or selected a medical director. If approved, the applicant expects to hire a medical director prior to the licensure survey.

The total estimated project cost is \$4,631,397.25. The major costs are the fair market value of the property, (\$4,000,000) and renovation costs of 235,000. Other costs include equipment costs, architectural and engineering fees, and administrative costs.

The president of Community Trust & Banking Company provides a letter and documentation that the applicant has the funds available to fund the proposed project.

SHALLOWFORD HEALTHCARE, LLC

CN1207-032

November 14, 2012

PAGE 11

Estimated project cost is **\$22,658,154.00**. *Project Status: Site work continues with daily blasting. This should conclude in October, 2012. Grading has been delayed by rain but is on track for the month of October, 2012. Additional site work includes the relocation of utilities. Water and gas have been relocated and the electrical service will be relocated in October, 2012. Review of engineer drawing is complete, site work for drainage to begin at the end of October.*

Erlanger North Hospital, CN1012-056A, has an outstanding Certificate of Need that will expire on April 1, 2014. The CON was approved at the March 23, 2011 Agency meeting for the establishment of a nursing home and conversion of thirty (30) acute care beds to thirty (30) skilled nursing beds. The additional thirty (30) nursing home beds are subject to the 125 bed Nursing Home Bed Pool for the July 2010 to June 2011 state fiscal year period. Estimated project cost is **\$1,477,052.00**. *Project Status: Erlanger is proceeding with work associated with the implementation of CN1012-056. Replacement of the roof is completed and facility has received approval from the State Fire Marshal for installation/upgrade to the fire protection system. This work has also been bid and is ready to be awarded to contractor for installation. Facility also continues in discussion with an existing SNF provider about programmatic implementation and related operations of the skilled unit and expects to sign a Letter of Intent (LOI) with the provider in the next few weeks or less, while also anticipating discussion with HSDA in the near term. The proposed provider arrangement goes before the Erlanger Board Planning Committee on October 22, 2012. The facility expects to complete implementation of the CON within the time frame authorized.*

Chattanooga Medical Investors Limited Partnership, d/b/a Life Care Center of Ooltewah, CN1103-009A, has an outstanding Certificate of Need that will expire on September 1, 2013. The CON was approved at the July 27, 2011 Agency meeting for the relocation and replacement of a nursing home from 455 North Highland Park Ave., Chattanooga (Hamilton County), TN to a yet-to-be assigned address located on the northeast corner of Mountain View Road and Snow Hill Road, Ooltewah (Hamilton County), TN. The licensed beds will decrease from 153 to 120. Estimated project cost is **\$20,990,000**. *Project Status: Construction on Life Care Center of Ooltewah has progressed on schedule and within budget. The building should be substantially complete in early December 2012. Installation of the furniture, fixtures and equipment is scheduled to be complete by the end of December.*

SHALLOWFORD HEALTHCARE, LLC

CN1207-032

November 14, 2012

PAGE 13

LETTER OF INTENT

ORIGINAL APPLICATION

SECTION A: APPLICANT PROFILE

1. Name of Facility, Agency or Institution

Shallowford Healthcare, LLC
Name

2012 JUL 10 PM 3 49

7429 Shallowford Road, Suite 200
Street or Route

Hamilton
County

Chattanooga,
City

TN
State

37421
Zip Code

2. Contact Person Available for Responses to Questions

E. Graham Baker, Jr.
Name

Attorney
Title

Weeks and Anderson
Company Name

graham@grahambaker.net
e-mail address

2021 Richard Jones Road, Suite 350
Street or Route

Nashville,
City

TN
State

37215
Zip Code

Attorney
Association with Owner

615/370-3380
Phone Number

615/221-0080
Fax Number

3. Owner of the Facility, Agency, or Institution

Byron DeFoor
Name

(423) 308-1845
Phone Number

7201 Shallowford Road
Street or Route

Hamilton
County

Chattanooga
City

TN
State

37421
Zip Code

4. Type of Ownership of Control (Check One)

- A. Sole Proprietorship _____
B. Partnership _____
C. Limited Partnership _____
D. Corporation (For-Profit) _____
E. Corporation (Not-for-Profit) _____

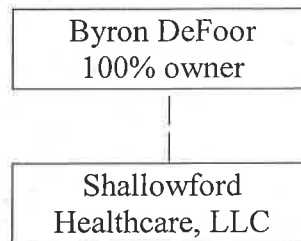
- F. Governmental (State of Tenn.
or Political Subdivision) _____
G. Joint Venture _____
H. Limited Liability Company X
I. Other (Specify) _____

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS. See Attachment A.4.

Section A, Item 4: *Describe the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the members of the ownership entity and each member's percentage of ownership, for those members with 5% or more ownership interest. In addition, please document the financial interest of the applicant, and the applicant's parent company/owner in any other health care institution as defined in Tennessee Code Annotated, §68-11-1602 in Tennessee. At a minimum, please provide the name, address, current status of licensure/certification, and percentage of ownership for each health care institution identified.*

Response: Shallowford Healthcare, LLC ("Applicant"), 7429 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421, owned by Byron DeFoor, 7201 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421 and to be managed by Grace Healthcare, LLC, 7201 Shallowford Road, Suite 200, Chattanooga, Tennessee 37421, files this application for a Certificate of Need for the establishment of a thirty (30) skilled bed nursing home.

See the following organizational chart:



Section A, Item 6: For applicants or applicant's parent company/owner that currently own the building/land for the project location, attach a copy of the title/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements must include anticipated purchase price. Lease/Option to Lease Agreements must include the actual/anticipated term of the agreement and actual/anticipated lease expense. The legal interests described herein must be valid on the date of the Agency's consideration of the certificate of need application.

Response: Veranda Property Investment, LLC owns the property and will lease the property to Shallowford Healthcare, LLC. Veranda Property Investment, LLC and Shallowford Healthcare, LLC have common ownership. Veranda Property Investment, LLC is owned as follows:

Byron DeFoor – 70%

Valor, LLC – 20% (Valor, LLC is owned 100% by Kenneth DeFoor)

Ansley Blake DeFoor – 10%

The site is approximately 3.92 acres. Please see *Attachment A.6*, which is a copy of the lease, and *Attachment A.6.1*, which is a copy of the deed to the property.

The lease begins on January 1, 2013.

9. Bed Complement Data

Please indicate current and proposed distribution and certification of facility beds.

Response: Establishment of new 30 skilled bed nursing home:

	Current Beds		Staffed	Beds	TOTAL
	<u>Licensed</u>	<u>CON*</u>	<u>Beds</u>	<u>Proposed</u>	<u>Beds at Completion</u>
A. Medical	_____	_____	_____	_____	_____
B. Surgical	_____	_____	_____	_____	_____
C. Long-Term Care Hospital	_____	_____	_____	_____	_____
D. Obstetrical	_____	_____	_____	_____	_____
E. ICU/CCU	_____	_____	_____	_____	_____
F. Neonatal	_____	_____	_____	_____	_____
G. Pediatric	_____	_____	_____	_____	_____
H. Adult Psychiatric	_____	_____	_____	_____	_____
I. Geriatric Psychiatric	_____	_____	_____	_____	_____
J. Child/Adolescent Psychiatric	_____	_____	_____	_____	_____
K. Rehabilitation	_____	_____	_____	_____	_____
L. Nursing Facility (non-Medicaid Certified)	_____	_____	_____	_____	_____
M. Nursing Facility Level 1 (Medicaid only)	_____	_____	_____	_____	_____
N. Nursing Facility Level 2 (Medicare only)	_____	_____	_____	_____	_____
O. Nursing Facility Level 2 (dually-certified)	_____	_____	_____	30	30
P. ICF/MR	_____	_____	_____	_____	_____
Q. Adult Chemical Dependency	_____	_____	_____	_____	_____
R. Child & Adolescent Chemical Dependency	_____	_____	_____	_____	_____
S. Swing Beds	_____	_____	_____	_____	_____
T. Mental Health Residential Treatment	_____	_____	_____	_____	_____
U. Residential Hospice	_____	_____	_____	_____	_____
 TOTAL	_____	_____	_____	30	30

*CON Beds approved but not yet in service

Note: This application is for the addition of 30 skilled beds from the statutory "pool" of 125 beds authorized at T.C.A. §68-11-1622 for FY 2012-2013. While this application is statutorily for Medicare skilled beds, the Linton Rule prescribes that all additional beds must be certified for Medicaid patients, also. Therefore, the above chart indicates that the 30 requested beds will be dually-certified in order to comply with the Linton rule.

NOTE: *Section B is intended to give the applicant an opportunity to describe the project and to discuss the need that the applicant sees for the project. Section C addresses how the project relates to the Certificate of Need criteria of Need, Economic Feasibility, and the Contribution to the Orderly Development of Health Care. Discussions on how the application relates to the criteria should not take place in this section unless otherwise specified.*

SECTION B: PROJECT DESCRIPTION

Please answer all questions on 8 1/2" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

Response: Shallowford Healthcare, LLC, 7429 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421 ("Applicant"), owned by Byron DeFoor, 7201 Shallowford Road, Chattanooga, Tennessee 37421, and managed by Grace Healthcare, LLC, 7201 Shallowford Road, Suite 200, Chattanooga, Tennessee 37421, files this application for a Certificate of Need for the establishment of a thirty (30) skilled bed nursing home. The requested beds are subject to the FY 2011-2012 pool of nursing home beds authorized by T.C.A. § 68-11-1622. Due to the Linton Rule, all beds will be certified for both Medicare and Medicaid. This is the first of two (2) separate Certificate of Need applications, each for thirty (30) skilled beds. It is anticipated that the Applicant will file a second Certificate of Need application for thirty (30) skilled beds subject to the FY 2012-2013 pool of nursing home beds authorized by T.C.A. § 68-11-1622, with the Applicant planning to eventually operate a sixty (60) skilled bed nursing facility. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will serve Medicare, Medicaid, commercially insured, and private-pay patients, and the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately \$4,631,397.25, including filing fee.

It is proposed that the Applicant will renovate an existing health care facility for this nursing home. The facility for this project is currently being utilized as a chemical dependency and eating disorder treatment facility. As the approximate 38,000 GSF single floor building, built in 1995, is already a health care facility, relatively little modification needs to be made in order to convert the facility into a nursing home. Eventually, the Applicant hopes to operate a 60 skilled bed nursing home at this site. The proposed service area is Hamilton County.

Plot Plan and proposed footprints are included as *Attachments B.III.A. and B.IV.*

As reported on Joint Annual Reports for existing county facilities, nursing homes in Hamilton County have operated 86.3%, 83.7%, and 86.5% for 2008 through 2010, respectively. At least one facility has decreased its bed count since the filing of the 2010 JARs. Life Care Center of Chattanooga has closed its 153 bed facility, and was approved in July, 2011 for a replacement 120 bed nursing home. The Applicant understands one other nursing home in Hamilton County may be decreasing the number of beds at its facility. Currently, there are a total of 1,689 nursing home beds in Hamilton County, with another 120

schools in the area, including but not limited to Chattanooga State College, University of Tennessee, Chattanooga, Miller-Motte College, Southern Adventist University, Cleveland State Community College, and Chattanooga Tennessee Wesleyan College. The Applicant will explore the option of developing further relationships with local colleges and universities after the facility is licensed.

The site is in the eastern portion of Hamilton County, and is about one block from the Interstate 75 on- and off-ramps. Therefore, the site is readily accessible for families of its patients.

Due to the tremendous need for nursing home beds in Hamilton County, coupled with the fact that the addition of these beds will increase the existing nursing home bed capacity by only 1.6%, the approve of this project will have no negative impact on existing facilities.

If the first 30 bed application is approved, only \$100,000 will be needed to implement the second 30 beds at the facility. This would change construction costs to \$0.00, as no construction would be needed, and total cost per bed to \$3,334.

All necessary costs to meet guidelines have been included on the Project Costs Chart.

If the proposed 30 bed facility operated at full capacity, the mix for a 30 bed facility would be 22 patients in semi-private rooms, and 8 patients in private rooms.

Shallowford Healthcare will consider operating with 30 beds. The 30 bed floor plan would be one half of the facility, with 11 semi-private rooms and 8 private rooms.

The semi-private rooms in the facility are not the typical semi-private skilled nursing facility rooms. Unlike traditional semi-private rooms, these rooms are partitioned. The occupants share a bathroom that includes a shower. In addition, there is an additional piece of vacant land next to the facility that could be used for future expansion if it was determined during operation of the facility that additional private rooms were necessary.

The plot plan and proposed footprint are included as *Attachments B.III.A. and B.IV*, respectively.

The footprint indicates that there will be 22 semi-private rooms and 16 private rooms. Indicators are marked on the footprint (*Attachment B.IV*). If the facility is approved for only 30 beds total, there will be 11 semi-private rooms and 8 private rooms.

For informational purposes, the Applicant plans to submit a second application for another 30 skilled beds. The second application will apply for 30 beds from the FY 2012-2013 statutory pool of beds. If both applications are approved, the Applicant will eventually operate a 60 skilled bed nursing home.

There is ample room in the existing building to accommodate 60 beds. As stated, there will be 22 semi-private rooms and 16 private rooms. Due to the fact that all fixed costs had to be included in this first application, reported costs per bed are almost double what will eventually occur, assuming both applications are approved. For example, the full FMV of the building and property (\$4,000,000) had to be included in this first application, as did the renovation costs for the entire facility (\$235,000), architectural and engineering fees (\$25,000), legal, administrative, consultant fees (\$35,000), and most of the moveable equipment (\$171,000). Assuming the first application is approved, the project costs for the second application will be minimal.

As Hamilton County has a shortfall of 735 nursing home beds, the approval of both projects (totaling 60 beds) would comply with the Guidelines for Growth.

See *Attachment B.II.A* for existing nursing home bed utilization (2008 – 2010).

Population Estimates for Hamilton County and State of Tennessee
(Total and Aged Population)

State/County	2012 Pop.	2014 Pop.	2012–2014 Change	2012 Pop. % 65+	2014 Pop. % 65+	2012-2014 Change
Hamilton	318,632	320,713	0.6%	15.6%	16.4%	5.8 %
Tennessee	6,361,070	6,470,546	1.7%	13.8%	14.4%	6.1%

Source: Population Estimates and Projections, Tennessee Counties and the State, 2010-2020, Office of Health Statistics, Bureau of Health Informatics, Tennessee Department of Health.

In addition, please note other population characteristics of Hamilton County, as compared to the State of Tennessee, in the chart below:

Selected Population Estimates for Hamilton County and State of Tennessee

State/County	2010 Pop. % Non- White	2010 Pop. % Below Poverty Level	2010 Pop. Per Capita Income	2010 Pop. Median Household Income
Hamilton	26.1%	14.7%	\$26,588	\$45,408
Tennessee	22.4%	16.5%	\$23,722	\$43,314

Source: State and County QuickFacts, U.S. Bureau of Census (See Attachment B.II.B for more data).

The statistical bed need data, especially combined with the growing elderly population, points to a growing need for nursing home beds in Hamilton County.

In addition, the proposed facility will be located in a high growth corridor of Hamilton County, in the eastern portion of the county. The site is one block from Interstate 75, so the site is readily accessible for the families of patients. There are several senior housing projects within a few miles of our site, and Life Care Center chose this section of the county to locate its 120 bed replacement facility. Geographically, this section of the county is a little more isolated from the middle and western sections of the county, and nursing homes located in this area seem to average higher occupancy rates than the average occupancy rates of facilities located in other sections of the county.

C. As the applicant, describe your need to provide the following health care services (if applicable to this application):

1. Adult Psychiatric Services
2. Alcohol and Drug Treatment for Adolescents (exceeding 28 days)
3. Birthing Center
4. Burn Units
5. Cardiac Catheterization Services
6. Child and Adolescent Psychiatric Services
7. Extracorporeal Lithotripsy
8. Home Health Services
9. Hospice Services
10. Residential Hospice
11. ICF/MR Services
12. Long-term Care Services
13. Magnetic Resonance Imaging (MRI)
14. Mental Health Residential Treatment
15. Neonatal Intensive Care Unit
16. Non-Residential Methadone Treatment Centers
17. Open Heart Surgery
18. Positron Emission Tomography
19. Radiation Therapy/Linear Accelerator
20. Rehabilitation Services
21. Swing Beds

Response: N/A, as no new services will be provided.

D. Describe the need to change location or replace an existing facility.

Response: N/A.

III. (A) Attach a copy of the plot plan of the site on an 8 1/2" x 11" sheet of white paper which must include:

- 1. Size of site (*in acres*)**
- 2. Location of structure on the site; and**
- 3. Location of the proposed construction.**
- 4. Names of streets, roads or highway that cross or border the site.**

Please note that the drawings do not need to be drawn to scale. Plot plans are required for all projects.

Response:

1. The total development site is approximately 3.92 Acres. Please see attached plot plan (*Attachment B.III.A*).
2. Please see *Attachment B.III.A*. This attachment indicates the location of the existing facility.
3. The location of the proposed nursing home is the same footprint of the existing facility shown on *Attachment B.III.A*.
4. The site of the nursing home is located about one block from the Interstate 75 in eastern Hamilton County, and is readily accessible to patients and their families. Shallowford Road is undergoing a widening project, and the relatively small impact on this site is noted on *Attachment B.III.A*. The Applicant will maintain its 328 feet of frontage on Shallowford Road.

(B) Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

Response: The site of the nursing home is located about one block from the Interstate 75 in eastern Hamilton County, and is readily accessible to patients and their families. Public transportation is available.

SECTION C: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with Tennessee Code Annotated § 68-11-1609(b), “no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care.” The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan (Guidelines for Growth), developed pursuant to Tennessee Code Annotated §68-11-1625.

The following questions are listed according to the three (3) criteria: (I) Need, (II) Economic Feasibility, and (III) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. Please type each question and its response on an 8 1/2" x 11" white paper. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a question does not apply to your project, indicate “Not Applicable (NA).”

QUESTIONS

NEED

1. Describe the relationship of this proposal toward the implementation of the State Health Plan and Tennessee’s Health: Guidelines for Growth.
 - a. Please provide a response to each criterion and standard in Certificate of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9) here.

Response: Please see *Attachment Specific Criteria*, and *Attachment State Health Plan*.

- b. Applications that include a Change of Site for a health care institution, provide a response to General Criterion and Standards (4)(a-c).

Response: N/A.

4. A. Describe the demographics of the population to be served by this proposal.

Response: Hamilton County is our primary service area. The total population of Hamilton County is projected to increase only about 0.6% from now until 2014, yet the aged population (65+) is projected to increase about 5.8% in those same two years. The State of Tennessee total population is projected to increase only 1.7% between 2012 and 2014, yet the State's elderly population is projected to increase 6.1%. Therefore, the elderly population of Hamilton County is anticipated to grow almost ten times faster than the general population of Hamilton County, while the elderly population of the State is anticipated to grow only about 3.5 times as fast as the general population of the State. This means that the elderly population of Hamilton County is increasing much faster than the State. See the following chart:

**Population Estimates for Hamilton County and State of Tennessee
(Total and Aged Population)**

State/County	2012 Pop.	2014 Pop.	2012-2014 Change	2012 Pop. % 65+	2014 Pop. % 65+	2012-2014 Change
Hamilton	318,632	320,713	0.6%	15.6%	16.4%	5.8 %
Tennessee	6,361,070	6,470,546	1.7%	13.8%	14.4%	6.1%

Source: Population Estimates and Projections, Tennessee Counties and the State, 2010-2020, Office of Health Statistics, Bureau of Health Informatics, Tennessee Department of Health.

In addition, please note other population characteristics of Hamilton County, as compared to the State of Tennessee, in the chart below:

Selected Population Estimates for Hamilton County and State of Tennessee

State/County	2010 Pop. % Non- White	2010 Pop. % Below Poverty Level	2010 Pop. Per Capita Income	2010 Pop. Median Household Income
Hamilton	26.1%	14.7%	\$26,588	\$45,408
Tennessee	22.4%	16.5%	\$23,722	\$43,314

Source: State and County QuickFacts, U.S. Bureau of Census (See Attachment B.II.B for more data).

The statistical bed need data, especially combined with the growing elderly population, points to a growing need for nursing home beds in Hamilton County.

B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

Response: Hamilton County is our primary service area. The total population of Hamilton County is projected to increase only about 0.6% from now until 2014, yet the aged population (65+) is projected to increase about 5.8% in those same two years. The State of Tennessee total population is projected to increase only 1.7% between 2012 and 2014, yet the State's elderly population is projected to increase 6.1%. Therefore, the elderly population of Hamilton County is anticipated to grow almost ten times faster than the general population of Hamilton County, while the elderly population of the State is anticipated to grow only about 3.5 times as fast as the general population of the State. This means that the elderly population of Hamilton County is increasing much faster than the State. See the following chart:

**Population Estimates for Hamilton County and State of Tennessee
(Total and Aged Population)**

State/County	2012 Pop.	2014 Pop.	2012–2014 Change	2012 Pop. % 65+	2014 Pop. % 65+	2012-2014 Change
Hamilton	318,632	320,713	0.6%	15.6%	16.4%	5.8 %
Tennessee	6,361,070	6,470,546	1.7%	13.8%	14.4%	6.1%

Source: Population Estimates and Projections, Tennessee Counties and the State, 2010-2020, Office of Health Statistics, Bureau of Health Informatics, Tennessee Department of Health.

In addition, please note other population characteristics of Hamilton County, as compared to the State of Tennessee, in the chart below:

Selected Population Estimates for Hamilton County and State of Tennessee

State/County	2010 Pop. % Non- White	2010 Pop. % Below Poverty Level	2010 Pop. Per Capita Income	2010 Pop. Median Household Income
Hamilton	26.1%	14.7%	\$26,588	\$45,408
Tennessee	22.4%	16.5%	\$23,722	\$43,314

Source: State and County QuickFacts, U.S. Bureau of Census (See Attachment B.II.B for more data).

5. Describe the existing or certified services, including approved but unimplemented CONs, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc.

Response: As reported on Joint Annual Reports for existing county facilities, nursing homes in Hamilton County have operated 86.3%, 83.7%, and 86.5% for 2008 through 2010, respectively. At least one facility has decreased its bed count since the filing of the 2010 JARs. Life Care Center of Chattanooga has closed its 153 bed facility, and was approved in July, 2011 for a replacement 120 bed nursing home. The Applicant understands one other nursing home in Hamilton County may be decreasing the number of beds at its facility. Currently, there are a total of 1,689 nursing home beds in Hamilton County, with another 120 replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds. The bed need is for 2,544 beds in Hamilton County by 2014, resulting in a shortfall of 735 nursing home beds needed in the County. Therefore, there is a need for the additional beds requested in this application.

See *Attachment B.II.A* for a chart showing utilization of these nursing homes from 2008 – 2010.

In addition, the statutory 125 nursing home bed “pool” has not been overutilized during the past eight years. While 1,125 new beds have been authorized (9 years x 125 beds), only 586 have been approved, 138 denied, and 122 withdrawn from consideration. Note that at the time of submission of this application, 28 beds from the FY 2011-2012 pool are pending and have yet to be heard by the HSDA, and another 54 beds have been submitted, but have not yet been deemed complete. Therefore, even if all 82 of the pending beds are approved, there remain ample beds from the pool to approve those projects.

See following chart:

Statutory Nursing Home Bed Pool

Fiscal Year	Approved	Denied	Withdrawn
2012-2013	0	0	0
2011-2012*	40	0	0
2010-2011	92	0	40
2009-2010	21	0	14
2008-2009	76	28	0
2007-2008	125	0	24
2006-2007	85	60	0
2005-2006	64	50	24
2004-2005	83	0	20
Total	586	138	122

* 28 beds pending at time for June, 2012 meeting (Collins Chapel – Shelby Co.)

* 24 beds pending, not yet deemed complete (Pavilion – THS – Wilson Co.)

* 30 beds pending, not yet deemed complete (Shallowford Healthcare, 1st CON)

Source: HSDA Website

Hamilton County Nursing Home Utilization Trends-2008-2010

Facility	Beds	Pt days '08	Pt days '09	Pt days '10	% Chg '08-'10	Occ. '08	Occ. '09	Occ. '10
Alexian Village Health & Rehabilitation Ctr	114	35,613	36,047	36,546	2.6%	85.6%	86.6%	87.8%
Consulate Health Care of Chattanooga	127	42,958	42,277	43,953	2.3%	92.7%	91.2%	94.8%
The Health Center at Standifer place	474	149,383	143,319	146,871	-1.7%	86.3%	82.8%	84.9%
Life Care Center of Missionary Ridge	78	24,644	25,399	22,082	-10.4%	86.6%	89.2%	77.6%
NHC Healthcare, Chattanooga	207	68,799	69,385	67,963	-1.2%	91.1%	91.8%	90.0%
Saint Barnabas Nursing home	108	33,749	33,643	34,791	3.1%	85.6%	85.3%	88.3%
Life Care Center of East Ridge	160	41,640	40,621	41,710	0.2%	71.3%	69.6%	71.4%
Life Care Center of Collegedale	124	43,097	42,588	42,374	-1.7%	95.2%	94.1%	93.6%
Life Care Center of Red Bank	148	51,167	50,454	50,803	-0.7%	94.7%	93.4%	94.0%
Life Care Center of Chattanooga	153	42,932	27,841	*		76.9%	49.9%	*
Soddy Daisy Healthcare Center	120	41,751	42,241	41,916	0.4%	95.3%	96.4%	95.7%
Siskin Hospital's Subacute Rehab program	29	6,726	8,839	9,238	37.3%	63.5%	83.5%	87.3%
TOTAL	1,842	582,459	562,654	538,247	-7.6%	86.6%	83.7%	80.1%

* Not in Business 2010

It is important to note that (geographically) the Applicant's main competitors in Hamilton County will be Consulate Health Care Center of Chattanooga, The Health Center at Standifer Place, and Life Care Center of Collegedale. Accordingly, the entries for these three facilities are in bold print.

The lower occupancy in year one is to account for the period of time it will take for the facility to become Medicare certified and for the census to build.

According to data from the US Census Bureau, 4.5% of the population over the age of 65 lives in nursing homes. Based on the occupancy numbers and population number provided in the answers above, Hamilton County is serving only 2.97% of the population over 65 in nursing homes. Serving an additional 10,220 patient days per year will increase this percentage to 3.03%, still far below the average reported by the US Census Bureau. Based on Grace Healthcare's experience of managing forty nursing homes across the US with one in the Chattanooga area, Shallowford Healthcare is confident that servicing a projected growing population of 0.056% of the population over the age of 65 in the Hamilton County area is a fair projection.

The question has arisen (in the earlier application submitted by the Applicant) involving procedures to be followed by the Applicant when it has a Medicaid Skilled patient who no longer requires skilled care, but requires NF care. When this question was first posed, the Applicant's immediate response was to "...transfer the resident..." to a Level I provider. This response was based on the fact that, as a licensed skilled provider, we would have no authority to provide a level of care for which we were not certified and/or licensed. The beds we request are skilled beds; our first reaction to the question was that if we are restricted to skilled care, we can't provide anything else. For example, if a skilled patient needed surgery, we would assist that patient in finding a suitable provider; we aren't certified and/or licensed to provide that in our skilled facility.

But upon reflection and further research, the resolution of this issue is extremely complicated. The Applicant's attorney spent considerable time discussing this with representatives of the nursing home trade association (THCA), TennCare, and TDOH Licensure. While we do not speak for or claim to represent the positions of these organizations, we came away from these discussions with the following perceptions:

1. THCA appears to believe that distinctions between a Medicaid skilled bed and a Medicaid nursing facility bed are dubious, at best. In other words, a bed is a bed is a bed. If you are certified to accept Medicaid patients, it matters not if that patient is a skilled patient or a formerly-skilled patient who now needs NF care – you have to keep that patient (due to the Linton Rule).
2. The TennCare representative appeared to "side" with the THCA position – that a bed is a bed is a bed – and that the skilled facility should continue to provide care to a patient who now needs NF care, and to transfer that patient might trigger Linton Rule problems.
3. The Executive Director of Licensure appeared to say that the issue is complicated, because nursing facilities that provide skilled care have one provider number, and a different provider number for nursing facility care – thereby implying there is a difference between the two levels and those differences should be recognized by the facility. With that said, she agreed that the Linton Rule poses a problem that needs to be addressed.

With all of that said, all parties to which we spoke agreed that this is a complicated set of circumstances that need to be clarified, and there currently exists no clear answer. However, it appeared that the safer route, until the issue is resolved, would be to continue providing NF care to such a patient.

ECONOMIC FEASIBILITY

1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.
- All projects should have a project cost of at least \$3,000 on Line F. (Minimum CON Filing Fee). CON filing fee should be calculated from Line D. (See Application Instructions for Filing Fee)
 - The cost of any lease should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater.
 - The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.
 - For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.

Response: The Project Costs Chart is completed. This project involves approximately 38,000 GSF which will be renovated at a construction cost of \$235,000, for an average construction (renovation) cost per GSF of approximately \$6.19. The total project would approximate \$121.61 per GSF. Notes from the Applicant's architect are attached as *Attachment C.EF.1*.

The property was built in 1998 as an ALF and has been operated as a healthcare facility. There is no additional construction involved in ensuring the facility meets nursing home standards – only what was mentioned in the architect's letter. There will be minimal cost renovations completed to meet skilled nursing facility standards. Any architectural standards were already met when the facility was constructed.

The architect was not asked to inspect mechanical, electrical and fire safety due to the fact that the facility is already licensed as a health care facility and these areas of the facility already comply with nursing home standards. For example, the facility is fully sprinkled.

The chart below, prepared by the HSDA, indicates construction costs for recent nursing home applications. A review of these average costs indicate this particular project is financially feasible.

PROJECT COSTS CHART

A. Construction and equipment acquired by purchase.		
1. Architectural and Engineering Fees		\$ 25,000
2. Legal, Administrative (Excluding CON Filing Fee), Consultant		35,000
3. Acquisition of Site		
4. Preparation of Site		
5. Construction Costs		235,000
6. Contingency Fund		50,000
7. Fixed Equipment (Not included in Construction Contract)(Generator, Nurse Call)		105,000
8. Moveable Equipment (List all equipment over \$50,000)*		171,000
9. Other (Specify)		
Subsection A Total		621,000
B. Acquisition by gift, donation, or lease.		
1. Facility (Inclusive of Building and Land) (FMV of Property)		4,000,000
2. Building Only		
3. Land Only		
4. Equipment (Specify)		
5. Other (Specify)		
Subsection B Total		4,000,000
C. Financing costs and fees		
1. Interim Financing		
2. Underwriting Costs		
3. Reserve for One Year's Debt Service		
4. Other (Specify)		
Subsection C Total		0
D. Estimated Project Cost (A + B + C)		\$ 4,621,000.00
E. CON Filing Fee		\$ 10,397.25
F. Total Estimated Project Cost (D + E)	TOTAL	\$ 4,631,397.25

For Information Only **SUPPLEMENTAL**
(This is the anticipated costs for the 60 bed facility if both applications are approved)

PROJECT COSTS CHART – 60 beds

2012 AUG 14 PM 3: 08

A. Construction and equipment acquired by purchase.

1. Architectural and Engineering Fees	\$ 25,000
2. Legal, Administrative (Excluding CON Filing Fee), Consultant	35,000
3. Acquisition of Site	
4. Preparation of Site	
5. Construction Costs	235,000
6. Contingency Fund	50,000
7. Fixed Equipment (Not included in Construction Contract)(Generator/Nurse Call)	105,000
8. Moveable Equipment (List all equipment over \$50,000)*	271,000
9. Other (Specify)	
Subsection A Total	721,000

B. Acquisition by gift, donation, or lease.

1. Facility (Inclusive of Building and Land) (FMV of Property)	4,000,000
2. Building Only	
3. Land Only	
4. Equipment (Specify)	
5. Other (Specify)	
Financing	
Subsection B Total	4,000,000

C. Financing costs and fees

1. Interim Financing	
2. Underwriting Costs	
3. Reserve for One Year's Debt Service	
4. Other (Specify)	
Subsection C Total	0

D. Estimated Project Cost (A + B + C)	\$ 4,721,000.00
E. CON Filing Fee	\$ 20,794.50
F. Total Estimated Project Cost (D + E)	TOTAL \$ 4,741,944.50

3. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services and Development Agency.

Response: The Project Costs Chart is completed. This project involves approximately 38,000 GSF which will be renovated at a construction cost of \$235,000, for an average construction cost per GSF of approximately \$6.19. The total project would approximate \$212.61 per GSF. Notes from the Applicant's architect are attached as *Attachment C.EF.1*.

The chart below, prepared by the HSDA, indicates construction costs for recent nursing home applications. A review of these average costs indicate this particular project is financially feasible.

Nursing Home Construction Cost Per Square Foot

Years: 2009 – 2011

	Renovated Construction	New Construction	Total Construction
1 st Quartile	NA	\$158.44/sq ft	\$94.55/sq ft
Median	NA	\$167.31/sq ft	\$165.00/sq ft
3 rd Quartile	NA	\$176.00/sq ft	\$168.25/sq ft

Source: CON approved applications for years 2009 through 2011

Due to insufficient sample size, Renovated Construction is not available.

HISTORICAL DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency.
The fiscal year begins in _____(month).

Response: N/A, as a new facility.

2012-JUL 10 PM 3 50

A.	Utilization/Occupancy Rate			
B.	Revenue from Services to Patients			
	1. Inpatient Services	_____	_____	_____
	2. Outpatient Services	_____	_____	_____
	3. Emergency Services	_____	_____	_____
	4. Other Operating Revenue (Specify) _____	_____	_____	_____
	Gross Operating Revenue	_____	_____	_____
C.	Deductions from Operating Revenue			
	1. Contractual Adjustments	_____	_____	_____
	2. Provision for Charity Care	_____	_____	_____
	3. Provision for Bad Debt	_____	_____	_____
	Total Deductions	_____	_____	_____
	NET OPERATING REVENUE	_____	_____	_____
D.	Operating Expenses			
	1. Salaries and Wages	_____	_____	_____
	2. Physician's Salaries and Wages	_____	_____	_____
	3. Supplies	_____	_____	_____
	4. Taxes	_____	_____	_____
	5. Depreciation	_____	_____	_____
	6. Rent	_____	_____	_____
	7. Interest, other than Capital	_____	_____	_____
	8. Management Fees:	_____	_____	_____
	a. Fees to Affiliates	_____	_____	_____
	b. Fees to Non-Affiliates	_____	_____	_____
	9. Other Expenses (Specify) _____	_____	_____	_____
	Total Operating Expenses	_____	_____	_____
E.	Other Revenue (Expenses)-Net (Specify) _____	_____	_____	_____
	NET OPERATING INCOME (LOSS)	_____	_____	_____
F.	Capital Expenditures			
	1. Retirement of Principal	_____	_____	_____
	2. Interest	_____	_____	_____
	Total Capital Expenditure	_____	_____	_____
	NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	_____	_____	_____

OTHER EXPENSES

Other Expenses	Yr-1	Yr-2
Insurance	68,114.76	68,364.35
Utilities	127,920.00	127,920.00
Professional Fees – Therapy	288,660.00	372,300.00
Accounting	3,160.08	4,022.30
Computer Consulting	25,200.00	25,200.00
Professional Fees – Ancillary	9,568.68	9,833.55
Bank Fees	3,575.88	4,551.55
Dues & Subscriptions	2,910.60	3,704.75
Permits/Licenses	831.60	1,058.50
Postage	1,496.88	1,905.30
Training/Seminars	2,494.80	3,175.50
Purchased Services	65,556.97	79,369.60
TOTAL (line D.8)	599,490.25	701,405.40

OTHER EXPENSES

Other Expenses	Yr-1	Yr-2
Insurance	69,019.07	69,488.55
Utilities	127,920.00	127,920.00
Professional Fees – Therapy	615,955.00	775,625.00
Accounting	6,284.06	7,905.90
Computer Consulting	25,200.00	25,200.00
Professional Fees – Ancillary	10,585.51	11,089.15
Bank Fees	7,110.91	8,946.15
Dues & Subscriptions	5,787.95	7,281.75
Permits/Licenses	1,653.70	2,080.50
Postage	2,976.66	3,744.90
Training/Seminars	4,961.10	6,241.50
Purchased Services	116,385.72	359,671.92
TOTAL (line D.8)	993,839.68	1,405,195.32

OTHER EXPENSES

SUPPLEMENTAL

Other Expenses	Yr-1	Yr-2
Insurance	68,027.20	68,324.20
Utilities	127,920.00	127,920.00
Professional Fees – Therapy	577,150.00	806,650.00
Accounting	2,857.60	3,883.60
Computer Consulting	25,200.00	25,200.00
Professional Fees – Ancillary	10,223.60	10,844.60
Bank Fees	3,233.60	4,394.60
Dues & Subscriptions	2,632.00	3,577.00
Permits/Licenses	752.00	1,022.00
Postage	1,353.60	1,839.60
Training/Seminars	2,256.00	3,066.00
Purchased Services	70,433.20	90,845.20
TOTAL (line D.8)	892,038.80	1,147,566.80

OTHER EXPENSES

Other Expenses	Yr-1	Yr-2
Insurance	68,700.18	69,287.80
Utilities	127,920.00	127,920.00
Professional Fees – Therapy	1,097,180.00	1,551,250.00
Accounting	5,182.44	7,212.40
Computer Consulting	25,200.00	25,200.00
Professional Fees – Ancillary	11,630.74	12,859.40
Bank Fees	5,864.34	8,161.40
Dues & Subscriptions	4,773.30	6,643.00
Permits/Licenses	1,363.80	1,898.00
Postage	2,454.84	3,416.40
Training/Seminars	4,091.40	5,694.00
Purchased Services	209,125.32	134,258.30
TOTAL (line D.8)	1,563,486.36	1,953,800.70

PM 2: 45

6. A. Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.

Response: There are no current charges.

Based on our projected occupancy the first year, the average gross patient charge (with 40% Medicaid NF residents) will be \$387.70 per day, with \$120.51 in average deductions, resulting in a net patient charge of \$267.19 per patient day. Based on our projected occupancy the first year, the average gross patient charge (without Medicaid patients) will be \$707.91 per day, with \$322.04 in average deductions, resulting in a net patient charge of \$385.87 per patient day. The facility will have a positive cash flow in Year 2 (Projected Data Chart) and succeeding years. (Note: If all 60 beds are eventually approved, these figures will drop to \$403.54, \$129.63, and \$273.91 with 40% Medicaid NF residents, and \$652.84, \$295.77, and \$357.07 with no Medicaid patients).

Our projections will not be altered as a result of implementation of the proposal.

The provision of only skilled care results in much higher costs and charges. The Siskin facility is closer than other facilities to providing the care we envision at Shallowford Healthcare, LLC.

7. Discuss how projected utilization rates will be sufficient to maintain cost-effectiveness.

Response: The Projected Data Chart indicates sufficient income to maintain cost-effectiveness, with a positive cash flow in Year 2. Obviously, income is dependent upon rendering services to a sufficient number of patients. As the Applicant's owners and the management company has been in business for many years, the Applicant feels comfortable with the projections.

Further, since the need for nursing home beds totals 735 beds, the percentage of elderly population is growing at almost 10 times the general population growth and the facility will be located in an area of the county where nursing home beds are utilized at higher occupancy rates, the Applicant feels that projected utilization rates will be sufficient to maintain cost-effectiveness.

8. Discuss how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

Response: The Projected Data Chart indicates sufficient income to maintain cost-effectiveness, with a positive cash flow in Year 2. Obviously, income is dependent upon rendering services to a sufficient number of patients. As the Applicant's owners and the management company has been in business for many years, the Applicant feels comfortable with the projections.

Further, since the need for nursing home beds totals 735 beds, the percentage of elderly population is growing at almost 10 times the general population growth and the facility will be located in an area of the county where nursing home beds are utilized at higher occupancy rates, the Applicant feels that projected utilization rates will be sufficient to maintain cost-effectiveness.

But upon reflection and further research, the resolution of this issue is extremely complicated. The Applicant's attorney spent considerable time discussing this with representatives of the nursing home trade association (THCA), TennCare, and TDOH Licensure. While we do not speak for or claim to represent the positions of these organizations, we came away from these discussions with the following perceptions:

1. THCA appears to believe that distinctions between a Medicaid skilled bed and a Medicaid nursing facility bed are dubious, at best. In other words, a bed is a bed is a bed. If you are certified to accept Medicaid patients, it matters not if that patient is a skilled patient or a formerly-skilled patient who now needs NF care – you have to keep that patient (due to the Linton Rule).
2. The TennCare representative appeared to “side” with the THCA position – that a bed is a bed is a bed – and that the skilled facility should continue to provide care to a patient who now needs NF care, and to transfer that patient might trigger Linton Rule problems.
3. The Executive Director of Licensure appeared to say that the issue is complicated, because nursing facilities that provide skilled care have one provider number, and a different provider number for nursing facility care – thereby implying there is a difference between the two levels and those differences should be recognized by the facility. With that said, she agreed that the Linton Rule poses a problem that needs to be addressed.

With all of that said, all parties to which we spoke agreed that this is a complicated set of circumstances that need to be clarified, and there currently exists no clear answer. However, it appeared that the safer route, until the issued is resolved, would be to continue providing NF care to such a patient.

The Applicant may not have so much of a problem with this as originally anticipated by HSDA staff. First, our marketing strategy for the entire facility is to target short-term rehab residents who intend to, and have a high potential of, returning home. All nursing facilities conduct pre-admission evaluations (“PAEs”). As a consequence, a PAE of patients referred to us would be done to determine rehab potential and overall ability to return home. Second, most Medicare residents reach their full rehab potential and return home before their 100 days of available skilled care has expired. Third, our PAEs of potential residents prior to admission to the facility will result in a high majority of the residents returning to their home. Finally, we will be admitting a significant number of residents who may have Medicaid as a secondary payer, but most of those residents will be discharged to their respective homes or to a community-based program before exhausting their Medicare benefit. Our clinical programs will be focused toward rehab. Therefore, our admissions philosophy will match our clinical specialty. As a result, the Projected Data Chart is accurate as submitted.

Shallowford Healthcare will not knowingly or intentionally violate any laws, rules, regulations or court directions. We will heed the advice of the people to which we spoke, including HSDA representatives, and continue to provide care to an admitted skilled patient who eventually requires only NF care.

And in so doing, if the challenge is made by any governmental authority or other health care provider that we are providing care for which we were not approved, we trust that the same people who advised us in this complicated issue will assist us in its resolution.

11. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:
- A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.

Response: The Applicant's owner has been in the nursing home business for many years. The management company's majority owner is the Applicant's owner, and the management company manages about 38 nursing homes, 20 in Tennessee. Further, the Applicant's owner is also the majority owner of the property owner. In short, this application represents many years of successful provision of long term care in Tennessee. The owner felt that this alternative was the best alternative to provide needed skilled care in Hamilton County.

One alternative was to build another facility to house the requested beds. This alternative was discarded due to the higher costs.

Another alternative was to do nothing. Such would have continued the need for skilled care in Hamilton County, so this alternative was also discarded.

The final alternative was to attempt to build a larger facility, as the need for nursing home beds in Hamilton County now stands at 735 additional beds needed. State statutes prohibited requesting more than 30 skilled beds per fiscal year, so this alternative was discarded.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. List all existing health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health services.

Response: The Applicant, through its management company, will continue existing relationships with facilities in the area. Transfer agreements will be negotiated with acute care facilities.

Shallowford Healthcare will contract with United Healthcare Community Plan, BlueCare, and TennCare Select.

Medicare HMO and insurance contracts will be negotiated on an as-needed basis, based on referrals received from local hospitals.

See *Attachment A.13* for a map of Tennessee showing the geographic areas for each MCO.

**Population Estimates for Hamilton County and State of Tennessee
(Total and Aged Population)**

State/County	2012 Pop.	2014 Pop.	2012–2014 Change	2012 Pop. % 65+	2014 Pop. % 65+	2012-2014 Change
Hamilton	318,632	320,713	0.6%	15.6%	16.4%	5.8 %
Tennessee	6,361,070	6,470,546	1.7%	13.8%	14.4%	6.1%

*Source: Population Estimates and Projections, Tennessee Counties and the State, 2010-2020,
Office of Health Statistics, Bureau of Health Informatics, Tennessee Department of Health.*

In addition, please note other population characteristics of Hamilton County, as compared to the State of Tennessee, in the chart below:

Selected Population Estimates for Hamilton County and State of Tennessee

State/County	2010 Pop. % Non- White	2010 Pop. % Below Poverty Level	2010 Pop. Per Capita Income	2010 Pop. Median Household Income
Hamilton	26.1%	14.7%	\$26,588	\$45,408
Tennessee	22.4%	16.5%	\$23,722	\$43,314

Source: State and County QuickFacts, U.S. Bureau of Census (See Attachment B.II.B for more data).

The statistical bed need data, especially combined with the growing elderly population, points to a growing need for nursing home beds in Hamilton County.

In addition, the proposed facility will be located in a high growth corridor of Hamilton County, in the eastern portion of the county. The site is one block from Interstate 75, so the site is readily accessible for the families of patients. There are several senior housing projects within a few miles of our site, and Life Care Center chose this section of the county to locate its 120 bed replacement facility. Geographically, this section of the county is a little more isolated from the middle and western sections of the county, and nursing homes located in this area seem to average higher occupancy rates than the average occupancy rates of facilities located in other sections of the county.

3. Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTEs for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the Tennessee Department of Labor & Workforce Development and/or other documented sources.

Response: The addition of these 30 requested beds will entail the hiring of approximately 2 RNs, 3 LPNs and 8 CNAs. Nursing staffing is readily available, as only approximately 26 nurses are required to staff a 60 bed facility, and this project is for only 30 beds. We do not anticipate any problems in securing nursing staff for this facility. Grace Healthcare, the management company, manages approximately 38 nursing homes, 20 in Tennessee, and its HR department keeps RN, LPN, CNAs, housekeeping and dietary positions open for application. In addition, Grace Healthcare has experience in recruiting, and plans to recruit from nursing schools in the area, including but not limited to Chattanooga State College, University of Tennessee, Chattanooga, Miller-Motte College, Southern Adventist University, Cleveland State Community College, and Chattanooga Tennessee Wesleyan College. The Applicant will explore the option of developing further relationships with local colleges and universities after the facility is licensed.

Existing and Year 1 nursing personnel and salary ranges are given below:

Nursing Personnel

Position	Year 1	Salary Range
RN	2	\$50,000 – 55,000/yr
LPN	3	\$38,000 – 43,000/yr
CNA	8	\$20,000 – 25,000/yr

For informational purposes only, assuming both 30 bed applications are approved, the nursing staff required to staff a 60 bed skilled facility would be double what is in the chart above.

In addition, please see *Attachment C.OD.3* for prevailing wage patterns in the area.

Shallowford Healthcare will contract with a related party therapy company who will staff therapists according to census and rehabilitation needs. The related party therapy company currently provides therapy services to twenty Tennessee nursing homes.

Shallowford Healthcare will hire for social worker, activities director and other related positions.

This has been accounted for in our Projected Data Charts.

5. **Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review *policies and programs*, record keeping, and staff education.**

Response: The Applicant is familiar with all licensing certification requirements for medical/clinical staff.

6. **Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (*e.g.*, internships, residencies, etc.).**

Response: Grace Healthcare, LLC has experience in recruiting, and plans to recruit from nursing schools in the area, including but not limited to Chattanooga State College, University of Tennessee, Chattanooga, Miller-Motte College, Southern Adventist University, Cleveland State Community College, and Chattanooga Tennessee Wesleyan College. The Applicant will explore the option of developing further relationships with local colleges and universities after the facility is licensed.

8. Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.

Response: There have been no final orders or judgments as are contemplated by this question.

9. Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project

Response: There have been no final orders or judgments as are contemplated by this question.

10. If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.

Response: The Applicant will provide all data contemplated by this question.

PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision date, as published in Rule 68-11-1609(c): 11/2012.

2012 JUL 10 PM 3 51

Assuming the CON approval becomes the final agency action on that date; indicate the number of day from the above agency decision date to each phase of the completion forecast.

<u>Phase</u>	<u>DAYS REQUIRED</u>	<u>Anticipated Date (MONTH/YEAR)</u>
1. Architectural and engineering contract signed	<u>30</u>	<u>12/2012</u>
2. Construction documents approved by the Tennessee Department of Health	<u>30</u>	<u>01/2013</u>
3. Construction contract signed	<u> </u>	<u>01/2013</u>
4. Building permit secured	<u> </u>	<u>01/2013</u>
5. Site preparation completed	<u> </u>	<u>01/2013</u>
6. Building construction commenced (<u>renovation</u>)	<u>30</u>	<u>02/2013</u>
7. Construction 40% complete	<u> </u>	<u> </u>
8. Construction 80% complete	<u> </u>	<u> </u>
9. Construction 100% complete (approved for occupancy (<u>renovation</u>))	<u>30</u>	<u>03/2013</u>
10. *Issuance of license	<u>15</u>	<u>04/2013</u>
11. *Initiation of service	<u> </u>	<u>04/2013</u>
12. Final Architectural Certification of Payment	<u> </u>	<u>04/2013</u>
13. Final Project Report Form (HF0055)	<u> </u>	<u>04/2013</u>

*** For projects that do NOT involve construction or renovation : Please complete items 10 and 11 only.**

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

NURSING HOME SERVICES

A. Need

1. According to TCA §68-11-108 (sic), the need for nursing home beds shall be determined by applying the following population-based statistical methodology:

$$\begin{aligned} \text{County bed need} = & .0005 \times \text{pop. 65 and under, plus} \\ & .0120 \times \text{pop. 65-74, plus} \\ & .0600 \times \text{pop. 75-84, plus} \\ & .1500 \times \text{pop. 85, plus} \end{aligned}$$

Response: Shallowford Healthcare, LLC, 7429 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421 (“Applicant”), owned by Byron DeFoor, 7201 Shallowford Road, Chattanooga, Tennessee 37421, and managed by Grace Healthcare, LLC, 7201 Shallowford Road, Suite 200, Chattanooga, Tennessee 37421, files this application for a Certificate of Need for the establishment of a thirty (30) skilled bed nursing home. The requested beds are subject to the FY 2012-2013 pool of nursing home beds authorized by T.C.A. § 68-11-1622. Due to the Linton Rule, all beds will be certified for both Medicare and Medicaid. This is the second of two (2) separate Certificate of Need applications, each for thirty (30) skilled beds. The Applicant filed a Certificate of need application for thirty (30) skilled beds subject to the FY 2011-2012 pool of nursing home beds authorized by T.C.A. § 68-11-1622. With that earlier application and this application, the Applicant plans to eventually operate a sixty (60) skilled bed nursing facility. See *Attachment B.II.A* for an inventory of existing beds and historic utilization.

The nursing home bed utilization data supplied by the State indicates that there are currently 1,689 existing nursing home beds in Hamilton County (2010 JARs), and 120 replacement beds have been approved but not yet in service, with a total statistical need of 2,544 beds by 2014. This means that there is a need for 735 nursing home beds in the County. Approval of this application will help satisfy that need.

In addition, the Applicant understands one other nursing home in Hamilton County may be decreasing the number of beds at its facility.

Due to the need for several hundred more nursing home beds in Hamilton County, there should be no negative impact on existing facilities. Approval of this project would increase the number of beds in Hamilton County by approximately 1.6%.

This facility will be located in the eastern portion of Hamilton County. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% during 2008-2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1% and 93.6% for the same three years, respectively. The two nursing homes just noted operated at an average of 93.6% during 2008-2010, and the remaining 9 licensed nursing homes in Hamilton County operated at an average of 85.5% during the same three years. Therefore, this project will be located in an area of Hamilton County where nursing home beds are highly utilized.

In addition, the proposed facility will be located in a high growth corridor of Hamilton County, in the eastern portion of the county. The site is one block from Interstate 75, so the site is readily accessible for the families of patients. There are several senior housing projects within a few miles of our site, and Life Care Center chose this section of the county to locate its 120 bed replacement facility. Geographically, this section of the county is a little more isolated from the middle and western sections of the county, and nursing homes located in this area seem to average higher occupancy rates than the average occupancy rates of facilities located in other sections of the county.

In addition, the statutory 125 nursing home bed “pool” has not been overutilized during the past eight years. While 1,125 new beds have been authorized (9 years x 125 beds), only 586 have been approved, 138 denied, and 122 withdrawn from consideration. Note that at the time of submission of this application, 28 beds from the FY 2011-2012 pool are pending and have yet to be heard by the HSDA, and another 54 beds have been submitted, but have not yet been deemed complete. Therefore, even if all 82 of the pending beds are approved, there remain ample beds from the pool to approve those projects.

See following chart:

Statutory Nursing Home Bed Pool

Fiscal Year	Approved	Denied	Withdrawn
2012-2013	0	0	0
2011-2012*	40	0	0
2010-2011	92	0	40
2009-2010	21	0	14
2008-2009	76	28	0
2007-2008	125	0	24
2006-2007	85	60	0
2005-2006	64	50	24
2004-2005	83	0	20
Total	586	138	122

* 28 beds pending at time for June, 2012 meeting (Collins Chapel – Shelby Co.)

* 24 beds pending, not yet deemed complete (Pavilion – THS – Wilson Co.)

* 30 beds pending, not yet deemed complete (Shallowford Healthcare, 1st CON)

Source: HSDA Website

This is a clear indication that facilities are applying for these beds only when it is felt the beds are needed – not just because the beds are available. Such is the case with this particular application.

To conclude, the approval of this project should not impact existing facilities in the County. First, the requested beds (30) would result in an increase of only 1.6% of the total beds in the County. Second, those facilities providing quality care would not be affected by such a small increase at our facility. Third, the overall bed need in Hamilton County is for 2,544 beds by 2014, and there are only 1,809 beds available (1,689 in existence plus another 120 beds approved but not yet in service). Fourth, by converting an existing health care facility, we are able to

5. The Health Facilities Commission (sic) may consider approving new nursing home beds in excess of the need standard for a service area, but the following criteria must be considered:

- a. All outstanding CON projects in the proposed service area resulting in a net increase in beds are licensed and in operation, and

Response: There currently exist 11 nursing homes in the county. Another facility (Life Care Center of Chattanooga) recently shut down its 153 bed facility and was approved for a replacement 120 bed facility. That replacement facility is not yet licensed.

- b. All nursing homes that serve that same service area population as the applicant have an annualized occupancy in excess of 90%.

Response: This facility will be located in the eastern portion of Hamilton County. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% during 2008-2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1% and 93.6% for the same three years, respectively. The two nursing homes just noted operated at an average of 93.6% during 2008-2010, and the remaining 9 licensed nursing homes in Hamilton County operated at an average of 85.5% during the same three years. Therefore, this project will be located in an area of Hamilton County where nursing home beds are highly utilized.

Attachment B.II.A shows that of the 11 facilities, 5 facilities operated at or above 90% in 2010.

information was submitted on both the 2008 and the 2010 JAR. This has been corrected, as has the original attachment. Please see *Attachment B.II.A*.

- 3. A nursing home seeking approval to expand its bed capacity must have maintained an occupancy rate of 95 percent for that previous year.**

Response: N/A, as this is a new facility.

- 4. A free-standing nursing home shall have a capacity of at least 30 beds in order to be approved. The Health Facilities Commission (sic) may make an exception to this standard. A facility of less than 30 beds may be located in a sparsely populated rural area where the population is not sufficient to justify a larger facility. Also, a project may be developed in conjunction with a retirement center where only a limited number of beds are needed for the residents of that retirement center.**

Response: The Applicant complies.

GRACE HEALTHCARE, LLC
BALANCE SHEETS
DECEMBER 31

ASSETS

	2011	2010
Current Assets		
Cash	\$ 1,316,638	\$ 548,954
Prepaid Expenses and Other Assets	66,249	59,069
	<u>1,382,887</u>	<u>608,023</u>
Equipment		
Leasehold Improvements	13,875	-
Computer Equipment	162,538	162,538
Office Furniture	70,282	52,958
Vehicles	153,776	40,143
	<u>400,471</u>	<u>255,639</u>
Accumulated Depreciation	(200,328)	(173,577)
	<u>200,143</u>	<u>82,062</u>
Related Receivables, Net of Allowance of \$1,500,000	<u>7,339,093</u>	<u>12,969,933</u>
Other Assets		
Deposits	39,012	36,436
Assets Limited as to Use - Escrow	1,000,000	-
Assets Limited as to Use - Note Receivable	2,000,000	-
	<u>3,039,012</u>	<u>36,436</u>
Total Assets	<u><u>\$ 11,961,135</u></u>	<u><u>\$ 13,696,454</u></u>

See accompanying notes which are an integral part of these financial statements.

GRACE HEALTHCARE, LLC
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Management Fees, Net	\$ 10,810,947	\$ 11,004,342
Other Operating Income	-	27,261
	<u>10,810,947</u>	<u>11,031,603</u>
Operating Expenses		
Salaries and Wages	5,978,003	6,158,223
Payroll Taxes and Employee Benefits	1,410,550	986,137
Travel and Training	981,066	895,407
Rental	240,000	239,916
Contract Labor	-	11,901
Insurance	43,417	19,973
Telephone and Utilities	141,613	365,796
Administrative and General	392,196	318,585
Interest	262,532	235,434
Professional	463,794	97,123
Depreciation and Amortization	26,751	41,092
Taxes	151,179	43,990
Loan Guaranty Fees	50,000	50,000
Other	13,541	33,913
	<u>10,154,642</u>	<u>9,497,490</u>
Operating Income	656,305	1,534,113
Interest Income	-	19,610
Net Income	<u>\$ 656,305</u>	<u>\$ 1,553,723</u>

See accompanying notes which are an integral part of these financial statements.

Nursing Home Bed Utilization for Service Area **2008-2010**

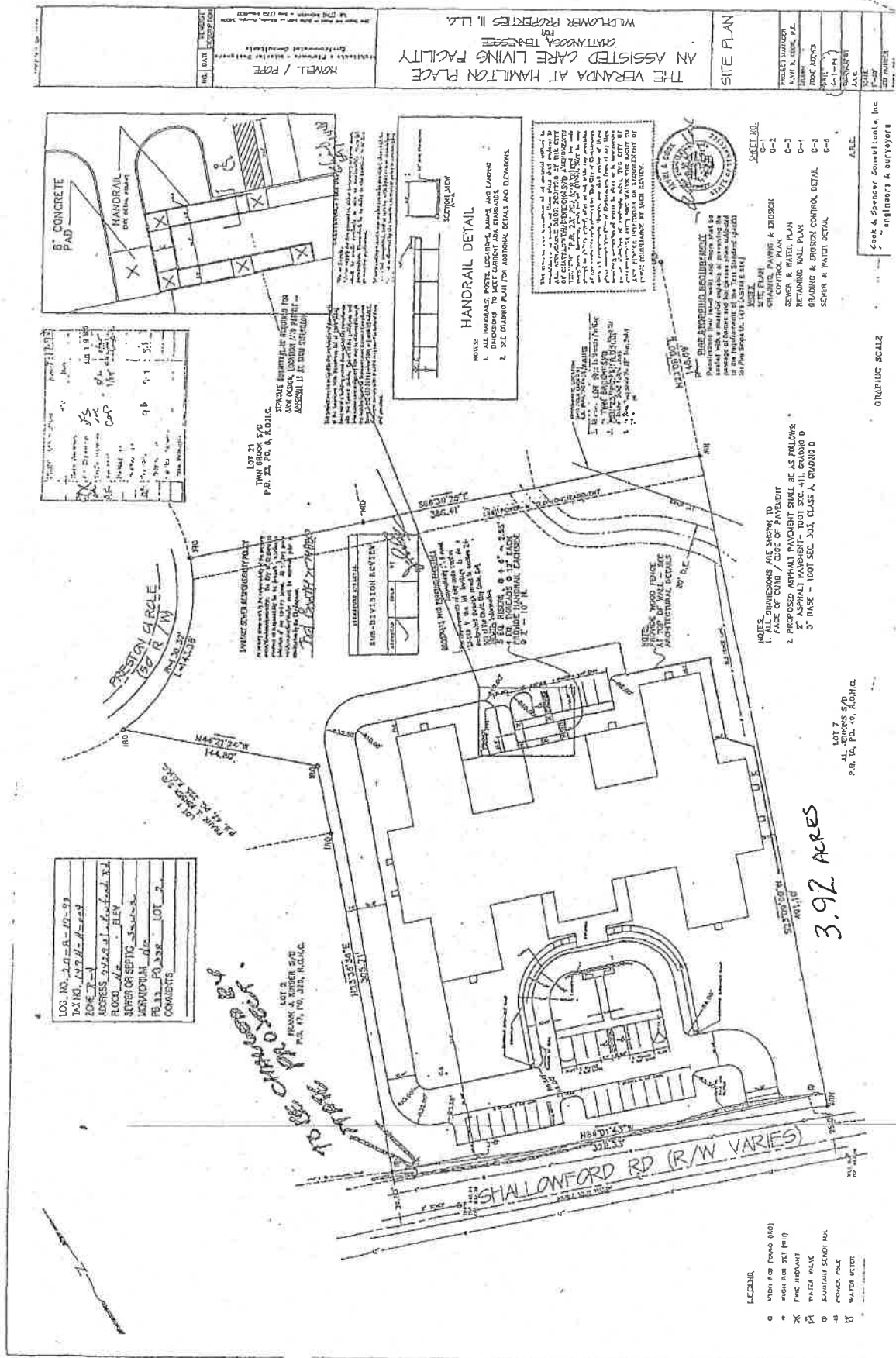
2008	Nursing Home	County	Beds	Occ.	TNCare	Level I	Level II	Pt days	Adm's
330132	Alexian Village Health and Rehabilitation Center	Hamilton	114	85.6%	0.0%	84.3%	15.7%	35,613	254
330232	Consulate Health Care of Chattanooga	Hamilton	127	92.7%	0.0%	85.3%	14.7%	42,958	322
330332	The Health Center at Standifer place	Hamilton	474	86.3%	65.8%	40.7%	59.3%	149,383	1,103
330432	Life Care Center of Missionary Ridge	Hamilton	78	86.6%	76.2%	77.8%	22.2%	24,644	174
330732	NHC Healthcare, Chattanooga	Hamilton	207	91.1%	54.6%	43.9%	56.1%	68,799	444
330832	Saint Barnabas Nursing home	Hamilton	108	85.6%	44.0%	60.4%	39.6%	33,749	367
330932	Life Care Center of East Ridge	Hamilton	160	71.3%	0.0%	34.7%	65.3%	41,640	931
331032	Life Care Center of Collegedale	Hamilton	124	95.2%	0.0%	49.9%	50.1%	43,097	320
331432	Life Care Center of Red Bank	Hamilton	148	94.7%	49.5%	18.7%	81.3%	51,167	529
332032	Life Care Center of Chattanooga	Hamilton	153	76.9%	0.0%	61.9%	38.1%	42,932	523
332232	Soddy Daisy Healthcare Center	Hamilton	120	95.3%	58.6%	67.9%	26.5%	41,751	272
332332	Siskin Hospital's Subacute Rehab program	Hamilton	29	63.5%	0.0%	0.0%	100.0%	6,726	570
TOTAL			1,842	86.6%				582,459	

2009	Nursing Home	County	Beds	Occ.	TNCare	Level I	Level II	Pt days	Adm's
330132	Alexian Village Health and Rehabilitation Center	Hamilton	114	86.6%	0.0%	88.2%	11.8%	36,047	287
330232	Consulate Health Care of Chattanooga	Hamilton	127	91.2%	0.0%	81.8%	18.2%	42,277	256
330332	The Health Center at Standifer place	Hamilton	474	82.8%	66.7%	65.6%	34.4%	143,319	895
330432	Life Care Center of Missionary Ridge	Hamilton	78	89.2%	80.2%	83.6%	16.4%	25,399	137
330732	NHC Healthcare, Chattanooga	Hamilton	207	91.8%	56.3%	59.8%	40.2%	69,385	424
330832	Saint Barnabas Nursing home	Hamilton	108	85.3%	50.0%	68.4%	31.6%	33,643	299
330932	Life Care Center of East Ridge	Hamilton	160	69.6%	0.0%	28.2%	71.8%	40,621	934
331032	Life Care Center of Collegedale	Hamilton	124	94.1%	51.9%	69.5%	30.5%	42,588	469
331432	Life Care Center of Red Bank	Hamilton	148	93.4%	48.6%	70.3%	29.7%	50,454	407
332032	Life Care Center of Chattanooga	Hamilton	153	49.9%	70.0%	68.0%	32.0%	27,841	293
332232	Soddy Daisy Healthcare Center	Hamilton	120	96.4%	51.2%	69.0%	31.0%	42,241	346
332332	Siskin Hospital's Subacute Rehab program	Hamilton	29	83.5%	0.0%	0.0%	100.0%	8,839	695
TOTAL			1,842	83.7%				562,654	

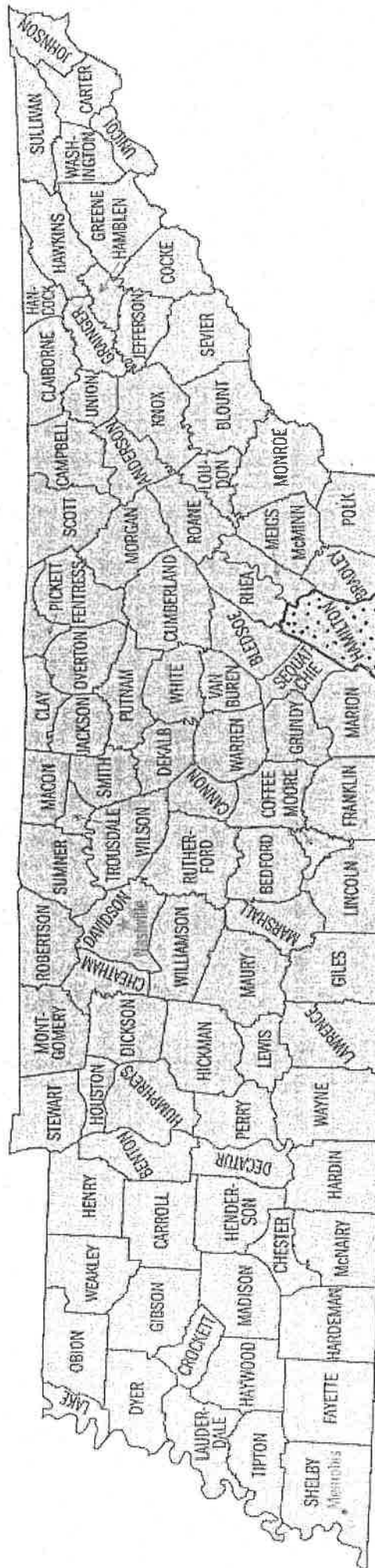
State & County QuickFacts

Hamilton County, Tennessee

People QuickFacts	Hamilton County	Tennessee
Population, 2011 estimate	NA	6,403,353
Population, 2010	336,463	6,346,105
Population, percent change, 2000 to 2010	9.3%	11.5%
Population, 2000	307,896	5,689,283
Persons under 5 years, percent, 2010	6.1%	6.4%
Persons under 18 years, percent, 2010	21.6%	23.6%
Persons 65 years and over, percent, 2010	14.7%	13.4%
Female persons, percent, 2010	51.9%	51.3%
White persons, percent, 2010 (a)	73.9%	77.6%
Black persons, percent, 2010 (a)	20.2%	16.7%
American Indian and Alaska Native persons, percent, 2010 (a)	0.3%	0.3%
Asian persons, percent, 2010 (a)	1.8%	1.4%
Native Hawaiian and Other Pacific Islander, percent, 2010 (a)	0.1%	0.1%
Persons reporting two or more races, percent, 2010	1.7%	1.7%
Persons of Hispanic or Latino origin, percent, 2010 (b)	4.5%	4.6%
White persons not Hispanic, percent, 2010	72.0%	75.6%
Living in same house 1 year & over, 2006-2010	82.8%	83.8%
Foreign born persons, percent, 2006-2010	4.6%	4.4%
Language other than English spoken at home, pct age 5+, 2006-2010	6.0%	6.2%
High school graduates, percent of persons age 25+, 2006-2010	85.4%	82.5%
Bachelor's degree or higher, pct of persons age 25+, 2006-2010	27.0%	22.7%
Veterans, 2006-2010	28,136	505,746
Mean travel time to work (minutes), workers age 16+, 2006-2010	21.2	23.9
Housing units, 2010	151,107	2,812,133
Homeownership rate, 2006-2010	65.5%	69.6%
Housing units in multi-unit structures, percent, 2006-2010	24.2%	18.1%
Median value of owner-occupied housing units, 2006-2010	\$147,200	\$134,100
Households, 2006-2010	133,953	2,443,475
Persons per household, 2006-2010	2.40	2.49
Per capita money income in past 12 months (2010 dollars) 2006-2010	\$26,588	\$23,722
Median household income 2006-2010	\$45,408	\$43,314
Persons below poverty level, percent, 2006-2010	14.7%	16.5%
Business QuickFacts	Hamilton County	Tennessee
Private nonfarm establishments, 2009	8,756	132,901 ¹
Private nonfarm employment, 2009.	170,950	2,317,986 ¹



Tennessee County Map





U.S. Department of Health and Human Services

Health Resources and Services Administration

www.hrsa.gov

Search

[A-Z Index](#) | [Questions?](#) | [Other Publications](#)[Home](#)[Get Health Care](#)[Grants](#)[Fellow & Scholarships](#)[Data & Statistics](#)[Public Health](#)[About HRSA](#)

Find Shortage Areas: HPSA by State & County

[Shortage Designation Home](#)[Find Shortage Areas](#)[HPSA & MUA/P by Address](#)[HPSA Eligible for the Medicare Physician Bonus Payment](#)[MUA/P by State & County](#)

Criteria:

State: Tennessee

County: Hamilton County

ID: All

Date of Last Update: All Dates

HPSA Score (lower limit): 0

Discipline: Primary Medical Care

Metro: All

Status: Designated

Type: All

Results: 2 records found.

(Satellite sites of Comprehensive Health Centers automatically assume the HPSA score of the affiliated grantee. They are not listed separately.)

HPSA Name	ID	Type	FTE	# Short	Score
065 - Hamilton County					
Erlanger Health System	1479994797	Comprehensive Health Center	1	0	9
Chattanooga/Hamilton County Health Department	14799947A4	Comprehensive Health Center	1	0	9

[NEW SEARCH](#)[MODIFY SEARCH CRITERIA](#)

NOTE: On Thursday November 3, 2011, the list of designated HPSAs was updated to reflect the publication of the Federal Register Notice with the list of designated HPSAs as of September 1, 2011. HPSAs that were designated after September 1, 2011 are considered designated even though they are not on the federal register listing; HPSAs that have been placed in "proposed for withdrawal" or "no new data" status since September 1, 2011 will remain in that status until the publication of the next federal register notice. If there are any questions about the status of a particular HPSA or area, we recommend that you contact the state primary care office in your state; a listing can be obtained at <http://bhpr.hrsa.gov/shortage/hpsas/primarycareoffices.html>.

[Ask Questions](#) | [Viewers & Players](#) | [Privacy Policy](#) | [Disclaimers](#) | [Accessibility](#) | [Freedom of Information Act](#) | [USA.gov](#) | [WhiteHouse.gov](#) | [Recovery.gov](#)

MEMORANDUM - Chattanooga Nursing Home Conversion

8. Budget: The below categories of cost make assumptions that may or may not be valid based on the very preliminary assessment conducted. These categories and cost are not all inclusive. A further detailed study of the facility and review by the State Health Department should be conducted in order to adequately assess the required renovation cost.

a. Spinklering of facility	
i. 38k sf @ \$2.50/sf =	\$95,000
b. Conversion of private to semi private rooms	
i. 230 sf/rm x \$20/sf =	\$4,600/rm
ii. \$4,600/rm x 22 rooms =	\$100,000
c. Kitchen upgrade =	\$20,000
d. Smoke Wall separations	\$20,000
Total Possible Cost	\$235,000

Summary: This initial study is preliminary and not intended to be all inclusive of all items and expenses which might be required to renovate the existing facility into a nursing home classification. Further research and analysis of all disciplines to include mechanical, electrical and fire safety should be conducted in order to further define the estimated project cost.



FARMERS BANK & TRUST

P.O. BOX 250 • Magnolia, AR 71754-0250 • 870/235-7000

2 26FDP 9739A0X.002
Attachment C.EF.10

FBTAR: 0002411
**Member
FDIC**

Account Number	40057952
Statement Date	4/09/12
Statement Period	3/13/12 to 4/09/12
Days in Period	28
Page	1 of 1

2379 1 MB 0.401 *0002411 51
Byron Defoor
Grace Healthcare
7201 Shallowford Rd Ste 100
Chattanooga TN 37421-2782



FARMERS BANK & TRUST

FB&T NetTeller Online Bill Pay Service

Pay any person or business online instead of writing checks! Pay bills electronically, when possible! Access at home or away from home!

Sign up today at www.fbtarkansas.com.

**Member
FDIC**

Blue Chip Money Market

Beginning Balance	861,375.88	Account Number	40057952
0 Deposits/Credits	.00	Avg Ledger Balance	861,375
0 Checks/Debits	.00	Avg Collected Balance	861,375
0 Electronic Debits	.00		
Service Charge	.00	Interest Earned	528.63
Interest Paid	528.63 ✓	Annual Percentage Yield Earned	0.80%
Ending Balance	861,904.51 ✓	2012 Interest Paid	2,955.80

Account Activity

Date	Description	Amount	Balance
4/09	INTEREST PAID 28 DAYS	528.63	861,904.51

Interest Rate Summary Information

Date	Interest Rate	Date	Interest Rate
3/12	.80%		

8021



Attachment C.OD.3



Total all industries

Chattanooga, TN-GA MSA, Tennessee

Healthcare Practitioners and Technical Occupations

Occupation	Occ. code	Est. empl.	Mean Wage	Entry wage	Exp. wage	25th Per.	Median Wage	75th Per.
HEALTHCARE PRACTITIONERS AND TECHNICAL OCCUPATIONS	29-0000	16,650	60,694	30,901	75,591	36,776	50,103	64,255
			29.18	14.86	36.34	17.68	24.09	30.89
Chiropractors	29-1011		122,628	55,386	156,249	91,393	120,403	160,332
			58.96	26.63	75.12	43.94	57.89	77.08
Dentists, General	29-1021		92,851	77,736	100,409	84,901	92,748	101,151
			44.64	37.37	48.27	40.82	44.59	48.63
Dietitians and Nutritionists	29-1031	110	45,205	28,049	53,783	34,544	43,038	53,804
			21.73	13.49	25.86	16.61	20.69	25.87
Optometrists	29-1041		89,157	71,106	98,182	76,771	93,259	106,118
			42.86	34.19	47.20	36.91	44.84	51.02
Pharmacists	29-1051	580	117,892	99,901	126,887	107,623	118,210	129,934
			56.68	48.03	61.00	51.74	56.83	62.47
Anesthesiologists	29-1061		234,512					
			112.75					
Family and General Practitioners	29-1062	30	166,212	126,805	185,916	142,869	159,023	
			79.91	60.96	89.38	68.69	76.45	
Internists, General	29-1063		194,852			155,488		
			93.68			74.75		
Psychiatrists	29-1066	20	150,070	123,006	163,601	132,494	148,090	166,243
			72.15	59.14	78.65	63.70	71.20	79.92
Surgeons	29-1067	130	233,257					
			112.14					
Physicians and Surgeons, All Other	29-1069	320	212,476			158,003		
			102.15			75.96		
Physician Assistants	29-1071	100	142,222	78,236	174,215	90,847	120,369	
			68.38	37.61	83.76	43.68	57.87	
Registered Nurses	29-1111	6,830	57,579	41,320	65,708	45,627	53,619	61,798
			27.68	19.87	31.59	21.94	25.78	29.71
Audiologists	29-1121	40	74,847	41,057	91,743	48,749	66,039	113,070
			35.98	19.74	44.11	23.44	31.75	54.36
Occupational Therapists	29-1122	330	73,059	58,879	80,149	63,084	72,342	83,765
			35.12	28.31	38.53	30.33	34.78	40.27
Physical Therapists	29-1123	470	79,526	62,617	87,980	65,982	76,224	88,624
			38.23	30.10	42.30	31.72	36.65	42.61
Radiation Therapists	29-1124		64,515	49,699	71,923	52,132	59,842	71,162
			31.02	23.89	34.58	25.06	28.77	34.21
Recreational Therapists	29-1125	20	35,830	29,740	38,875	30,962	35,563	40,250
			17.23	14.30	18.69	14.89	17.10	19.35



2012 JUL 10 PM 3 51
Total all industries

Chattanooga, TN-GA MSA, Tennessee

Healthcare Support Occupations

Occupation	Occ. code	Est. empl.	Mean Wage	Entry wage	Exp. wage	25th Per.	Median Wage	75th Per.
HEALTHCARE SUPPORT OCCUPATIONS	31-0000	6,740	26,640	19,112	30,403	20,613	23,970	29,507
			12.81	9.19	14.62	9.91	11.52	14.19
Home Health Aides	31-1011	1,180	22,448	18,019	24,663	19,847	22,640	25,256
			10.79	8.66	11.86	9.54	10.88	12.14
Nursing Aides, Orderlies, and Attendants	31-1012	2,370	22,216	18,121	24,263	19,332	21,952	25,116
			10.68	8.71	11.67	9.29	10.55	12.08
Occupational Therapist Assistants	31-2011	160	53,400	43,465	58,368	44,659	50,306	61,197
			25.67	20.90	28.06	21.47	24.19	29.42
Physical Therapist Assistants	31-2021	360	52,363	39,229	58,930	42,745	49,883	62,391
			25.17	18.86	28.33	20.55	23.98	30.00
Physical Therapist Aides	31-2022		19,971	16,143	21,885	16,806	19,775	22,481
			9.60	7.76	10.52	8.08	9.51	10.81
Massage Therapists	31-9011		23,808	16,174	27,625	17,906	22,957	27,903
			11.45	7.78	13.28	8.61	11.04	13.41
Dental Assistants	31-9091	520	29,675	22,069	33,477	23,255	29,563	34,286
			14.27	10.61	16.09	11.18	14.21	16.48
Medical Assistants	31-9092	1,170	27,485	21,958	30,248	22,839	25,815	30,205
			13.21	10.56	14.54	10.98	12.41	14.52
Medical Equipment Preparers	31-9093	90	27,127	21,350	30,015	23,049	26,616	31,314
			13.04	10.26	14.43	11.08	12.80	15.06
Medical Transcriptionists	31-9094	250	32,177	27,572	34,479	28,309	32,059	36,768
			15.47	13.26	16.58	13.61	15.41	17.68
Veterinary Assistants and Laboratory Animal Caretakers	31-9096		18,598	15,013	20,391	14,867	15,983	19,563
			8.94	7.22	9.80	7.15	7.68	9.41
Healthcare Support Workers, All Other	31-9099	120	26,422	18,589	30,339	20,213	25,278	31,046
			12.70	8.94	14.59	9.72	12.15	14.93



Entry and Experienced wages represent the mean of the lower third and the mean of the upper two-thirds of the wage distribution respectively. The OES survey does not collect information for entry or experienced workers. Tennessee Department of Labor & Workforce Development, Employment Security Division, Labor Market Information. Publish date June 2010.

AFFIDAVIT

2012 JUL 26 AM 9 51

STATE OF TENNESSEE

COUNTY OF WILLIAMSON

NAME OF FACILITY: Shallowford Healthcare, LLC (CN1207-032)

I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete to the best of my knowledge, information and belief.

E. Graham Baker, Jr. Attorney at Law
Signature/Title

Sworn to and subscribed before me, a Notary Public, this 26th day of July, 2012;
witness my hand at office in the County of Williamson, State of Tennessee.

Nathan E. Poteet
NOTARY PUBLIC

My Commission expires May 6, 2013



2. Section B, Project Description, Item IV (Floor Plan)

Recent nursing home applications have demonstrated a trend of increasing private resident rooms. Please explain why the applicant has chosen to propose a mix of 22 semi-private rooms and 16 private rooms.

Response: The semi-private rooms in the facility are not the typical semi-private skilled nursing facility rooms. Unlike traditional semi-private rooms, these rooms are partitioned. The occupants share a bathroom that includes a shower.

In addition, there is an additional piece of vacant land next to the facility that could be used for future expansion if it was determined during the operation of the facility that additional private rooms were necessary.

4. Section C, Need, Item 6

Your response to this item is noted.

The applicant has indicated that in 2010, 1689 of Hamilton County's nursing home beds were in operation in 2010. Of those licensed beds in operation 1,457 beds were Medicare skilled certified. SNF ADC was 545.3 or 37.4% occupancy of those beds. This suggests that 62.6% of the time these beds were occupied by NF patients. According to THCA as of January 1, 2012 statewide, Medicaid Level 1 patients occupied 60.5% of nursing home beds, Medicaid Level 2 patients accounted for occupying 4.02 percent of nursing home beds, and Medicare skilled patients occupied 17.85% of nursing home beds.

When as a whole in Hamilton County in 2010 and in 2012 statewide that Medicare skilled (including solely and dually certified beds) are occupied over 60% of the time by NF patients, how realistic is it for the applicant to project that the proposed dually-certified facility will essentially only serve skilled patients. Please explain how the applicant expects to accomplish in skilled utilization what apparently other nursing homes in the state are not able to accomplish due to the Linton ruling or for whatever other reasons for the high utilization of skilled beds by NF level patients.

Response: As noted above, the applicant believes the CHOICES Program will increase the demand for skilled services. The Project's goal to discharge residents to home or to a lower level of service is directly aligned with the CHOICES Program. We will specialize in rehab, and will target marketing efforts toward referral sources desiring to place short-term rehab patients. The applicant will offer full-service rehab 7 days a week, and will provide the resident the best opportunity to reach the highest possible level of function. The applicant believes it is possible to maintain a skilled census level well above the state average you cite above.

The original projections submitted with this application did not contemplate serving Medicaid Level I residents, who tend to be more long-term. The applicant has revised its projections to reflect Medicaid Level I services as requested, and the revisions are included with this response (See *Supplemental Projected Data Chart*).

However, since several Tennessee facilities currently operate as dually certified for Medicare and Level II Medicaid only, the applicant does not concede that Medicaid Level I is a requirement to comply with the Linton ruling. In fact, the Level I & Level II programs are distinctly different as evidenced by separate provider agreements and provider numbers, separate cost reports, and different reimbursement rates. The Level II program is linked to Medicare certification, and the Level I program is not, as evidenced by many facilities historically participating only in Level I care. The State has established specific medical and ADL criteria for Level I and Level II. The applicant believes that just as it is not discriminatory for a Level I provider to decline admission to an applicant requiring Level II services, it is not discriminatory for a Level II provider to decline services to an applicant needing only Level I care. We look forward to the resolution of this issue.

Shallowford Healthcare, LLC
CN1206-032

Supplemental Responses

6. Section C, Economic Feasibility, Items 4 (Projected Data Chart) and Item 9

Reimbursement appears to be based on Medicare and Medicaid skilled rates. Being that this facility proposes to be dually certified and that it has been noted earlier in this letter that the patterns of care in Hamilton County and Tennessee overall for dually certified facilities is that the majority of dually certified beds are occupied by Medicaid non-skilled care patients with Level 1 reimbursement which is significantly less than what is documented in the Projected Data Chart. Please review the chart and re-submit with one that reflects what the true patient mix of a Medicare and Medicaid participating facility will be.

Will the project still be financially feasible with the lower reimbursement for non-skilled patients?

Response: The Applicant prepared two additional Projected Data Charts – one for 30 beds and one for 60 beds. Both of these additional charts assumed 20% Medicaid NF patients and 20% Medicaid SNF patients. Based on these attached additional charts, average patient day information is as follows:

Total Facility, 75.1% Occupancy, 30 Beds, with 20% Medicaid ICF patients, Year 1:

\$447.26	Average Gross Charge Per Patient Day
\$152.12	Average Deductions
\$295.14	Average Net Charge Per Patient Day.

Total Facility, 96.7% Occupancy, 30 Beds, with 20% Medicaid ICF patients, Year 2:

\$449.38	Average Gross Charge Per Patient Day
\$152.46	Average Deductions
\$296.92	Average Net Charge Per Patient Day.

Total Facility, 67.3% Occupancy, 60 Beds, with 20% Medicaid ICF patients, Year 1:

\$471.03	Average Gross Charge Per Patient Day
\$159.44	Average Deductions
\$311.59	Average Net Charge Per Patient Day.

Total Facility, 86.7% Occupancy, 60 Beds, with 20% Medicaid ICF patients, Year 2:

\$467.08	Average Gross Charge Per Patient Day
\$161.51	Average Deductions
\$305.57	Average Net Charge Per Patient Day.

If only 30 beds are approved and 20% of the patients are Medicaid NF patients, the facility will lose \$679,247.47 and \$306,255.11 in Years 1 and 2, rendering the project not feasible. If all 60 beds are approved and 20% of the patients are Medicaid NF patients, the facility will make \$35,707.14 and \$709,601.02 in Years 1 and 2, respectively, making the project feasible.

2817666

RECEIVED JUL 16 2012

WEEKS AND ANDERSON

SUPPLEMENTAL- # 1

July 26, 2012

09:54 am

2012 JUL 26 AM 9 52

STATE OF TENNESSEE HAMILTON COUNTY

Before me personally appeared Linda Johnson who being duly sworn, that she is the Legal Sales Representative of the "CHATTANOOGA TIMES FREE PRESS" and that the Legal Ad of which the attached is a true copy, has been published in the above said Newspaper on the following dates, to-wit:

July 7, 2012

And that there is due or has been paid the "CHATTANOOGA TIMES FREE PRESS" for publication of such notice the sum of \$336.20 Dollars. (Includes \$10.00 Affidavit Charge).

Linda Johnson

Sworn to and subscribed before me, this 10 day of July 2012.



D. Corie Soto

My Commission Expires 2/18/2014

Chattanooga Times Free Press

COPY

SUPPLEMENTAL-2

**Shallowford Healthcare,
LLC**

CN1207-032

1. Section B, Project Description, Item II.

Your response to this item is noted. Will this mental health facility continue to operate in its current form if the nursing home beds projects are denied or will the mental health facility cease operation regardless of the decision on the nursing home beds?

Response: The facility will probably continue to operate as a mental health facility if this project is denied. The owner will continue to evaluate its business options from time to time and make decisions based on facts at that time.

If either this application or the one previously filed were to be denied, will the applicant consider operating a 30 bed nursing home?

Response: Yes, the Applicant will consider operating a 30 bed facility.

3. Section C, Need, Item 6

Your response to this item is noted.

HSDA review of the 2008 Summary Report for nursing homes discovered only one facility in Hamilton County and in fact the State of Tennessee that was dually certified Medicare/Medicaid that did not report Medicaid Level 1 utilization. The expectation that a dually certified facility will not serve Medicaid patients in need of Level 1 services is not realistic.

Please discuss.

Response: As it relates to Medicaid Level I utilization, the Applicant has no reason to suspect that the data you cite is incorrect. However, the 2010 JAR for at least one dually-certified facility in Hamilton County shows that only 30% of their patient days were Medicaid/TennCare Level I, and that of 429 admissions made to the facility that year, only 47 (about 11%) were Level I patients. We make no allegations of rule-breaking or violations of any law by repeating this public information; we only state that the HSDA staff contention that it is impossible for a dually-certified nursing home (both Medicare and Medicaid) to hold its Medicaid Level I patient days or admissions to a relatively low level is, in fact, debatable. By definition, some facilities will be below average and some will be above the average, as it relates to the provision of Level I services in a dual-certified facility.

We have discussed this both in the application, with all of our supplemental responses provided to date, and with telephone calls and meetings. We completely understand that the HSDA staff position, the position of TennCare, and possibly the position of THCA, is that “a bed is a bed is a bed” and that if a facility is certified for Medicaid, it cannot restrict admission or services to a Medicaid Level I patient. This is the conundrum created by the Linton Rule.

The Applicant has attempted to comply with the dual system created by certification – two different provider agreements, two different cost reports, two different medical criteria, two different reimbursement rates – and understand that this system is being interpreted in different ways now. We will comply with all known rules, regulations, statutes (federal, state, and local), as we have been for years with the forty facilities we manage.

However, the Applicant’s desire to provide skilled care in a skilled facility remains constant. We will either take Medicaid Level I patients as necessary, or request certification for Medicare and private pay skilled, only. To that extent, we are providing Projected Data Charts for each contingency, as noted later.

The Applicant respectfully requests the ability to move forward and make our case to the voting members of the HSDA.

5. Section C, Economic Feasibility, Items 4 (Projected Data Chart) and Item 9

2012 AUG 14 PM 3: 08

Your response to this item is noted. Please complete the following chart:

Response: Please see chart below, which contains Gross figures for both a 30 and 60 bed facility with 40% Medicaid Residents:

Revenue Breakdown by Payor and Level of Care

Variable	30 Beds-Year 1	30 Beds-Year 2	60 Beds-Year 1	60 Beds-Year 2
Medicare Patient Days	3,396	4,380	7,247	9,125
Medicare Average Charge per Patient Day	\$688.50	\$707.61	\$690.04	\$689.72
Medicare Gross Revenue	\$2,338,146.00	\$3,099,331.80	\$5,000,719.88	\$6,293,695.00
Medicaid Level 2 Patient Days	825	1,095	1,925	2,555
Medicaid Level 2 Gross Charge Per Patient	\$180.00	\$180.00	\$180.00	\$180.00
Medicaid Level 2 Gross Revenue	\$148,500.00	\$197,100.00	\$346,500.00	\$459,900.00
Medicaid Level 1 Patient Days	3,365	4,380	6,635	8,395
Medicaid Level 1 Gross Charge Per Patient	\$180.00	\$180.00	\$180.00	\$180.00
Medicaid Level 1 Gross Revenue	\$605,700.00	\$788,400.00	\$1,194,300.00	\$1,511,100.00
Other Private Patient Days	730	730	730	730
Other Private Gross Charge Per Patient	\$180.00	\$180.00	\$180.00	\$180.00
Other Private Gross Revenue	\$131,760.00	\$131,760.00	\$131,760.00	\$131,760.00
Other Level 1 Patient Days				
Other Level 1 Gross Charge Per Patient				
Other Level 1 Gross Revenue				
Total Gross Revenue	\$3,224,106.00	\$4,216,591.80	\$6,673,279.88	\$8,396,455.00

NOTE: Total Gross Revenue numbers may not be the exact same totals reported on the Supplemental Projected Data Charts due to rounding errors.

Please explain why Supplies expense, and Management Fees, decreases in the revised Projected Data Charts when compared to the Projected Data Charts filed with Supplemental 1.

Response: Management fees are driven by revenues. If the facility has lower revenues, there will be lower management fees. A significant portion of “Supplies” are pharmacy costs. The State Medicaid program pays for Medicaid patient pharmacy costs, which can be as high as \$35 per day. The facility pays for Medicare patient pharmacy costs out of our per diem. Therefore, the percentage of Medicaid and Medicare patients greatly impacts supply costs: a lower Medicare percentage lowers our supply costs. A higher Medicare percentage increases our supply costs.

If necessary please provide Projected Data Charts that are consistent with the information provided in the above chart.

Response: Please see *Supplemental Projected Data Charts – with Medicaid*.

If the applicant plans to present a scenario of only being Medicare certified, please present Projected Data Charts that reflect Medicare skilled utilization and no Medicaid utilization.

Response: Please see *Supplemental Projected Data Charts – without Medicaid*.

Nursing Home Bed Utilization for Service Area 2008-2010

2010	Nursing Home	Beds	Level I	Level II	Pt days
330132	Alexian Village Health and Rehabilitation Center	114	31,119	5,427	36,546
330232	Consulate Health Care of Chattanooga	127	36,581	7,372	43,953
330332	The Health Center at Standifer place	474	97,535	49,336	146,871
330432	Life Care Center of Missionary Ridge	78	18,112	3,970	22,082
330732	NHC Healthcare, Chattanooga	207	23,817	44,146	67,963
330832	Saint Barnabas Nursing home	108	23,610	11,181	34,791
330932	Life Care Center of East Ridge	160	9,474	32,236	41,710
331032	Life Care Center of Collegedale	124	30,032	12,342	42,374
331432	Life Care Center of Red Bank	148	36,572	14,231	50,803
332232	Soddy Daisy Healthcare Center	120	27,374	9,756	41,916
332332	Siskin Hospital's Subacute Rehab program	29	0	9,238	9,238
	TOTAL	1,689	334,226	199,235	538,247

Source: 2008, 2009 & 2010 JAR Schedule E - Beds (Licensed) & Schedule F-Utilization - Part 2 (Resident Days of Care)

Note: Life Care Center of Chattanooga no longer in business in 2010; constructing a 120 bed replacement facility

MEMORANDUM - Chattanooga Nursing Home Conversion

11. Draft stopping appear to be provided in the attic space in keeping with the 3000 SF area requirement for attic separation.
12. All toilets observed are accessible and provide for the required clear floor area, knee space and appropriate grab bar configuration. Emergency pulls will need to be installed in all toilets in order to comply with current 1-2 IBC code requirements. Ref electrical observations #20 below.
13. The site appears to be fully accessible with required access to public streets. There are currently public right of way improvements underway at the front public street which may require modifications to the on-site accessible route to ensure continued compliance once those improvements are complete.
14. Initial accessible parking spaces appear to in the quantity and locations required.

Mechanical Observations:

15. The facility is full sprinklered with a hydraulically calculated system.
16. Natural gas is used for water heating and cooking only - all appliances appear to be well maintained and in good working order.
17. Clothes dryers are electric and are vented to the outdoors.
18. Downspouts are turned out away from the foundation.
19. Duct penetrations at rated partitions are protected with dampers.

Electrical Observations:

20. A Nurse Call System with patient stations, emergency pulls in toilets, and nurse master stations must be added in order to meet the occupancy classification change from residential to institutional.
21. A generator, transfer switch, and emergency electrical panel must be added. Two duplex red receptacles per patient room must be installed and fed from this system. The exterior lighting at egress exit doors must be revised to provide two lamps per door circuited on emergency power.

Budget: The below categories of cost should be added to the previously submitted budget items.

a. Nurse Call System	\$40,000
b. Emergency Generator	\$65,000

AFFIDAVIT

2012 AUG 16 PM 2:45

STATE OF TENNESSEE
COUNTY OF DAVIDSON

NAME OF FACILITY: Shallowford Healthcare, LLC (CN1207-032)

I, E. Graham Baker, Jr., after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete to the best of my knowledge, information and belief.

E. Graham Baker, Jr. Attorney at Law
Signature/Title

Sworn to and subscribed before me, a Notary Public, this 16th day of August, 2012; witness my hand at office in the County of Davidson, State of Tennessee.

Nadeau E. Poteet
NOTARY PUBLIC



My Commission expires May 6, 2013

2. Section C, Economic Feasibility, Items 4 (Projected Data Chart) and Item 9

Your response to this item is noted. \$180.00 is listed as the gross charge per patient day for both Medicaid Level 1 and Medicaid Level 2. Since the reimbursement for Level 2 care is typically higher than for Level 1 care, shouldn't there be a difference between the Level 1 and Level 2 gross charge?

Response: We are required by Medicare regulations to charge the same amount to all residents, regardless of payor. Therefore, on this projected chart, all room and board charges are at \$180.00. In addition, the cap rate for reimbursement for Level II is currently at \$173.35 per day. Therefore, the room and board charge of \$180.00 projected is not below the current cap rate.

\$180.00 X 730 patient days is \$131,400 "Other Private Gross Revenue" not \$131,760. Making this change will also affect Total Gross Revenue on this chart and the Projected Data Charts.

Response: I have updated the chart to 732 Private Patient Days. \$180.00 X 732 patient days is \$131,760. Therefore, there is no change to the Total Gross Revenue. Occupancy numbers have been updated on the Projected Data Charts (*Supplemental Projected Data Charts* are attached).

On the second chart based solely on Medicare and private pay revenue, the row identifying the \$180 charge per patient day appears to be omitted.

Response: Noted and added to the current chart produced below.

In the "Projected Data Chart-30 beds with 40% NF Medicaid Residents" there appears to be a calculation error in the "Operating Expenses" portion of the Year 2 column.

Response: Noted and corrected.

In the "Projected Data Chart – 30 beds – No Medicaid Pts." it appears that the Patient Days listed for Year 1 and 2 should be 7,520 and 10,220, respectively rather than 6,790 and 9,490.

Response: Noted and corrected.

There appears to be a calculation error in the Year 2 Column of the "Other Expenses" chart for the 30 bed, no Medicaid Projected Data Chart.

Response: Noted and corrected.

Please see chart below, which contains Gross figures for both a 30 and 60 bed facility with no Medicaid Residents:

Revenue Breakdown by Payor and Level of Care

Variable	30 Beds-Year 1	30 Beds-Year 2	60 Beds-Year 1	60 Beds-Year 2
Medicare Patient Days	6,790	9,490	13,580	18,250
Medicare Average Charge per Patient Day	\$688.50/day	\$689.09/day	\$678.23/day	\$681.45/day
Medicare Gross Revenue	\$4,674,915.00	\$6,539,445.00	\$9,210,330.00	\$12,436,425.00
Medicaid Level 2 Patient Days				
Medicaid Level 2 Gross Charge Per Patient				
Medicaid Level 2 Gross Revenue				
Medicaid Level 1 Patient Days				
Medicaid Level 1 Gross Charge Per Patient				
Medicaid Level 1 Gross Revenue				
Other Private Patient Days	732	732	732	732
Other Private Gross Charge Per Patient	\$180.00	\$180.00	\$180.00	\$180.00
Other Level 2 Gross Revenue	\$131,760.00	\$131,760.00	\$131,760.00	\$131,760.00
Other Level 1 Patient Days				
Other Level 1 Gross Charge Per Patient				
Other Level 1 Gross Revenue				
Total Gross Revenue	4,806,675.00	6,671,205.00	9,342,090.00	12,568,185.00

NOTE: Total Gross Revenue numbers may not be the exact same totals reported on the Supplemental Projected Data Charts due to rounding errors.



2012 JUL 10 PM 3 20

LETTER OF INTENT TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

The Publication of Intent is to be published in the Chattanooga Times Free Press which is a newspaper
(Name of Newspaper)

of general circulation in Hamilton County, Tennessee, on or before July 10, 2012 for one day.
(County) (Month / day) (Year)

=====

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Shallowford Healthcare, LLC, 7429 Shallowford Road, Chattanooga (Hamilton County), Tennessee 37421 ("Applicant"), owned by Byron DeFoor, 7201 Shallowford Road, Chattanooga, Tennessee 37421, and managed by Grace Healthcare, LLC, 7201 Shallowford Road, Suite 200, Chattanooga, Tennessee 37421, intends to file an application for a Certificate of Need for the establishment of a thirty (30) skilled bed nursing home. The requested beds are subject to the FY 2012-2013 pool of nursing home beds authorized by T.C.A. § 68-11-1622. Due to the Linton Rule, all beds will be certified for both Medicare and Medicaid. This is the second of two (2) separate Certificate of Need applications, each for thirty (30) skilled beds. The Applicant filed a Certificate of need application for thirty (30) skilled beds subject to the FY 2011-2012 pool of nursing home beds authorized by T.C.A. § 68-11-1622. With that earlier application and this application, the Applicant plans to eventually operate a sixty (60) skilled bed nursing facility. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the Applicant will serve Medicare, Medicaid, commercially insured, and private-pay patients, and the Applicant will be licensed by the Tennessee Department of Health. The estimated project cost is anticipated to be approximately \$4,526,161.00, including filing fee.

The anticipated date of filing the application is: July 13, 2012.

The contact person for this project is E. Graham Baker, Jr. Attorney
(Contact Name) (Title)

who may be reached at: his office at 2021 Richard Jones Road, Suite 350
(Company Name) (Address)

Nashville TN 37215 615/370-3380
(City) (State) (Zip Code) (Area Code / Phone Number)

E. Graham Baker, Jr. 07/10/2012 graham@grahambaker.net
(Signature) (Date) (E-mail Address)

=====

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

=====

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the

NURSING HOME BED POOL STATS

July 1, 2012 – June 30, 2013

125 BED POOL

NH BEDS APPROVED	0 NURSING HOME BEDS
NH BEDS PENDING	30 NURSING HOME BEDS
SWING BEDS APPROVED	0 SWING BEDS
SWING BEDS PENDING	0 SWING BEDS
TOTAL BEDS DENIED	0 BEDS
<u>SUBTOTAL-- BEDS REQUESTED</u>	<u>30 BEDS</u>
TOTAL BEDS AVAILABLE FROM POOL	125 BEDS
(TOTAL PENDING BEDS)	(30 BEDS)

<u>COUNTY</u>	<u>PROJECT NUMBER</u>	<u>FACILITY</u>	<u>PROJECT DISPOSITION</u>	<u>MEETING DATE</u>	<u>DESCRIPTION</u>
Hamilton	CN1207-032	Shallowford Healthcare, LLC	PENDING	11/14/2012	The establishment of a thirty (30)* skilled bed nursing home (subject to the 2012-2013 Nursing Home Bed Pool). This is the second of two (2) applications, both for thirty (30)* skilled nursing home beds--the first application, CN1206-028 (subject to the 2011-2012 Nursing Home Bed Pool). The applicant plans to eventually operate a sixty (60) bed facility. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued.

NURSING HOME BED POOL STATS

Updated 9/10/2012

Page 1 of 1

**CERTIFICATE OF NEED
REVIEWED BY THE DEPARTMENT OF HEALTH
DIVISION OF HEALTH STATISTICS
615-741-1954**

2012 OCT 22 PM 2:15

DATE: September 28, 2012

APPLICANT: Shallowford Healthcare
7201 Shallowford Road
Chattanooga, Tennessee 37421

CONTACT PERSON: E. Graham Baker, Jr. Esquire
7000 Executive Center Drive, Suite 207
Brentwood, Tennessee 37027

COST: \$4,631,397.25

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Health Statistics, reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's Health: Guidelines for Growth, 2000 Edition*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

SUMMARY:

SUMMARY:

The applicant, Shallowford Healthcare, LLC located in Chattanooga (Hamilton County), Tennessee, seeks Certificate of Need (CON) approval for the establishment of a thirty (30) skilled bed nursing home. The requested beds are subject to the FY 2012-2013 for of nursing home beds authorized by T.C.A. § 68-11-1662. Due to the Litton Rule, all beds will be certified for both Medicare and Medicaid. This is the second of two separate CON applications, each for 30 skilled beds. The Applicant filed a CON application for thirty (30) skilled beds subject to the 2011-2012 pool of nursing home beds authorized by T.C.A. § 68-11-1662. With that early application and this application, the applicant plans to eventually operate a sixty (60) skilled bed nursing facility. If the proposed 30 bed facility operated at full capacity, the mix for the 30 bed facility would be 22 patients in semi-private rooms, and 8 patients in private rooms. There is no major medical equipment involved with this project. No other health services will be initiated or discontinued. It is proposed that the applicant will serve Medicare, Medicaid, commercially insured and private pay patients.

The proposed project is to renovate an existing health care facility, currently utilized as a chemical dependency and eating disorder treatment facility. The facility is an approximately 38,000 square foot building built in 1995 and is already a health care facility, so relatively little modification is needed to be made in order to convert the facility into a nursing home. The cost per bed for the project is \$121.61 per square foot and only \$235,000 of renovation costs (construction cost of \$6.19 per square foot, significantly lower than the average of the most recent applications heard by HSDA. The applicant reports the costs are high since all fixed costs have to be loaded in the first application. Since the second application will be extremely inexpensive (basically the cost of furnishings for 30 beds), the actual construction and total cost per bed is closer to almost half the numbers reported above, assuming all 60 beds. If the first application is approved, only \$100,000 will be needed to implement the second 30 beds at the facility. This would change construction costs to \$0.

Shallowford Healthcare, LLC is 100% owned by Byron DeFoor and will be managed by Grace Healthcare, LLC, who currently manages 38 nursing homes including 20 in Tennessee. The applicant lists the 20 Tennessee facilities on page 5 of the application.

The total estimated project cost is \$4,631,397.25 and will be financed through cash reserves of the owner, Byron DeFoor, as attested to in a letter from Community Trust & Banking Company in Supplemental 1, Attachment C EF.2. The applicant's bank statement from Farmers Bank state the applicant has sufficient funds that are set aside and committed to this project.

GENERAL CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's Health: Guidelines for Growth, 2000 Edition*.

NEED:

The applicant's proposed service area is Hamilton County. The following charts illustrate the 2012 and 2016 total population projections and the age 65 and older population projections for Hamilton County.

Service Area Total Population Projections for 2012 and 2016

County	2012 Population	2016 Population	% Increase/ (Decrease)
Hamilton	318,632	322,740	1.3%

Source: *Tennessee Population Projections 2000-2020, February 2008 Revision*, Tennessee Department of Health, Division of Health Statistics

Service Area Age 65 and Older Population Projections for 2012 and 2016

County	2012 Population	2016 Population	% Increase/ (Decrease)
Hamilton	49,670	55,524	11.8%

Source: *Tennessee Population Projections 2000-2020, February 2008 Revision*, Tennessee Department of Health, Division of Health Statistics

The following chart illustrates the Hamilton County Nursing Home utilization for 2009.

Hamilton County Nursing Home Utilization 2010

Nursing Home	Licensed Beds	SNF Beds-Medicare	SNF/NF Beds-Dually Certified	NF Beds-Medicaid	NF-ADC (Medicaid/Level I Only)	SNF Medicare Level II ADC	NF-ADC	Licensed Occupancy
Alexian Health Care Center	114	114	0	0	0	15	85	87.8%
Life Care Center of Collegedale	124	0	124	0	38	32	82	93.6%
Life Care Center of East Ridge	160	160	0	0	0	81	26	71.4%
Life Care Center of Missionary Ridge Hixon	78	0	78	0	49	9	50	77.8%
Life Care Center of Red Bank	148	0	148	0	75	36	100	94.0%
NHC Healthcare Chattanooga	207	0	145	62	33	22	65	90.0%
Siskin Hospital	29	29	0	0	0	24	0	87.3%

Soddy Daisy Healthcare	120	0	120	0	32	26	75	84.8%
St. Barnabas Nursing Home	108	0	108	0	45	24	65	88.3%
The Health Center of Standifer Place	474	0	304	170				84.9%
Consulate Health Care	127	0	127	0	0	16	100	94.8%
Total	1,689	303	1,154	232	272	285	648	86.5%

Source: *Joint Annual Report of Nursing Homes 2010*, Tennessee Department of Health, Division of Health Statistics

*Life Care Center of Chattanooga was open 252 days.

**Life Care Center of Missionary Ridge changed their name to Life Care Center of Hixson, 1/27/11.

Legend

Licensed Beds-Total beds in a nursing home licensed by the Tennessee Department of Health.
SNF Beds, Medicare Skilled Nursing or TennCare/Level II beds where the payor source is either Medicare or Skilled Medicaid.

SNF/NF Beds, Dually Certified-Medicare Skilled Nursing or TennCare/Level II and Intermediate Care or TennCare/Level I beds where the payor source is either Medicare or Medicaid.

NF Beds-Medicaid-Intermediate Care or TennCare/Level I beds where the payor source is Medicaid

Licensed Only Beds Non Certified-Skilled Nursing and Intermediate Care beds. Payor source is private pay.

SNF Medicare/Level II ADC-Average Daily Census for skilled patients whose payor source is Medicare. Average Daily Census is calculated by taking Medicare skilled/Level II patient days and dividing it by the number of days in a year (365) resulting in an average daily census.

NF-ADC-Average Daily Census for Level I/Intermediate Care patients.

Facility Occupancy-Occupancy rate for the total nursing home facility. Occupancy Rate is calculated by taking total patient days and dividing it by the number of beds available in a year.

Source: The definitions and presentation are done in accordance with Health Services and Development Agency Members and Staff requirements, October 2006.

Chart Summary

There are 1,689 licensed beds in Hamilton County, of which 303 beds are SNF Beds-Medicare, 1,154 beds are SNF-NF Beds-Dually Certified, and 232 beds are NF Beds-Medicaid. The average daily census (ADC) of NF-Medicaid/Level I Only beds is 272, the ADC for SNF Medicare Level II beds is 285, and the ADC for NF Beds is 648. The 2010 average licensed occupancy is 86.5% for the Hamilton County agencies.

Note to Agency Members: Of interest, one possible explanation for the occupancy of intermediate care patients in beds certified for skilled care is the legal precedent established in the Linton Ruling, a Tennessee lawsuit settled in 1990. HSDA deputy legal counsel provides a summary of the Linton Ruling as follows: "Mildred Lea Linton, a nursing home resident, represented a class of plaintiffs who alleged that Tennessee's nursing home bed certification policy, in which fewer than all beds within a particular wing or floor could be available for Medicaid recipients, violated the Medicaid Act. Ms. Linton's nursing home apportioned only 40 of its 87 intermediate care facility beds as Medicaid beds. When Medicaid officials reduced Ms. Linton's care eligibility from skilled to intermediate, Ms. Linton's nursing home informed her that it was decertifying her Medicaid bed

and would not likely have available any Medicaid beds. The District Court found that Tennessee's "limited bed policy" violated the Medicaid Act, and the state was instructed to submit a remedial plan, which, among other provisions, required Medicaid providers to certify all available, licensed nursing home beds within their facilities and to admit residents on a first-come, first-serve basis."

The first application was for 30 skilled beds that were subject to the pool of beds authorized for FY 2011-2012. This application is for 30 skilled beds that are authorized for the FY 2012-2013. The applicant intends to operate a 60 skilled bed nursing home. The applicant would consider operating a 30 bed facility with 11 semi-private rooms, and 8 private rooms.

The applicant plans to establish a sixty (60) skilled bed nursing home containing 22 semi-private and 8 private rooms. The semi-private rooms will not be the typical semi-private nursing facility beds these rooms will be portioned. The occupants will share a bathroom that includes a shower. Additionally, there is a vacant piece of land next to the facility that could be used for future expansion it was determined during the facility's operation additional private rooms were necessary.

In Supplemental 2, the applicant states they intend to provide only skilled nursing care and will enter into a transfer agreement with a Level I Medicaid Provider. At the point a resident no longer requires NF care; arrangements will be made to transfer the Level I resident to a Level SNF. Much discussion in Supplemental 2 regarding whether or not this policy would be in direct conflict with the Litton ruling. The applicant's attorney discussed the Litton issue with THCA (nursing home trade association), TennCare, and TDOH licensure. All parties agreed that the Litton ruling creates a complicated set of circumstances that need to be clarified, and there currently exists no clear answer. However, it was decided the safer route, until the issue is resolved, could be to continue to provide NF care to these patients.

The Joint Annual Reports for existing Hamilton county nursing homes have operated at 86.3%, 83.7%, and 86.5% occupancy for 2008, 2009, and 2010, respectively. At least one facility has decreased its bed count since the filing of the 2010 Joint Annual Reports. Life Care Center of Chattanooga has closed its 153 bed facility, and was approved in July of 2011 for a replacement 120 bed nursing home. Currently there are 1,689 nursing home beds in Hamilton County, with another 120 replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds. The calculated bed need for Hamilton Count is 2,544 beds in 2014. Therefore, there is a need for 735 beds. If this applicant were to be approved along with the second application, there would still be a need for 675 beds in Hamilton County.

The applicant's facility will be located in the eastern portion of Hamilton County. This is an area where nursing home beds are highly utilized. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% occupancy in 2008, 2009, and 2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1%, and 93.6% occupancy for the same three years, respectively.

The Hamilton County age 65+ population is projected to increase about 5.8% in 2014. The 2016 age 65+ is projected to increase by 11.8%. The elderly population in Hamilton County is growing at a much faster rate than the general population and the demand for nursing home beds will increase.

In addition, the applicant provides a chart from the HSDA web site of the Statutory Nursing Home Bed Pool utilization for the 8 previous years. While 1,000 beds have been authorized (8 years X 125 beds), only 586 beds have been approved, 138 denied, and 122 withdrawn from consideration. At the time of this application, 28 beds from the FY2011-2012 pool are pending and have yet to be heard by HSDA, and another 24 beds have been submitted but not deemed complete. Even if all 52 beds pending were approved, there remain ample beds from the pool to approve this project.

The project should not impact the existing facilities in the county as presently presented. The

requested 30 beds would result in an increase of 1.6% of the total beds in the county. The facilities currently providing quality care would not be affected by such a small increase in the proposed project. The overall need in Hamilton County greatly exceeds the existing beds and if this project is approved will not significantly impact the total bed need. By converting an existing health care facility, the transition to a nursing home becomes very financially feasible. The proposed site is also located in a high growth corridor of the county, with nursing homes located in this area having higher occupancy rates which are higher than the average.

TENNCARE/MEDICARE ACCESS:

The applicant indicates they will contract with United Healthcare Community Plan, BlueCare, and TennCare Select MCO plans.

TennCare Enrollees in the Proposed Service Area

County	2012 Population	TennCare Enrollees	% of Total Population
Hamilton	318,632	55,593	17.4%

Source: *Tennessee Population Projections 2000-2020*, February 2008 Revision Tennessee Department of Health, Division of Health Statistics and *Tennessee TennCare Management Information System, Recipient Enrollment*, Bureau of TennCare

The Medicare revenues will be 72.5% of gross revenues, Medicaid Level 1 will be 18.8% of gross revenues, and Medicaid Level II will be 4.6% of gross revenues in year one for 30 beds.

ECONOMIC FACTORS/FINANCIAL FEASIBILITY:

In the Projects Costs Chart, located in Supplemental 2, the total estimated project cost for 30 beds is \$100,000 for fixed equipment; and 10,397 for CON filing fees.

In the Projects Costs Chart, located in Supplemental 2, the total estimated project cost for 60 beds

In the Projected Data Chart for the 30-bed project including 40% NF Medicaid residents, located in Supplemental 3, the applicant projects 8,318 patient days in year one and 10,587 patient days in year two with gross operating revenues of \$2,224,106 and \$4,216,590 each year, respectively. Contractual adjustment, provisions for charity care and bad debt reduced net operating revenues to \$2,221,968.64 and \$2,835,683.10 each year. The applicant projects \$56,307.58 and \$71,419.15 in management fees to affiliates in year one and two respectively. The applicant projects a net operating (loss) of (\$795,010.80 in year one and (\$480,991.10) in year two of the project.

In the Projected Data Chart for the 60-bed unit including 40% NF Medicaid residents, located in Supplemental 3 the applicant projects 16,539 patient days in year one and 20,807 patient days in year two with gross operating revenues of \$6,673,279.50 and \$8,396,122.50 each year respectively. Contractual adjustments, provisions for charity care and bad debt reduced net operating revenues to \$4,529,536.70 and \$5,698,038.59 each year. The applicant projects \$114,072.58 and \$143,500.48 in management fees to affiliates in each year, respectively. The applicant projects a net operating income of \$49,773.09 in year one and \$452,097.94 in year two of the project.

The applicant projects a first year average gross charge for 40% Medicaid NF residents of \$387.70 per day, with an average deduction of \$120.51, resulting in an average net charge of \$267.19 per day. The applicant projects a first year average gross charge for without Medicaid NF residents of \$707.91 per day, with an average deduction of \$322.04, resulting in an average net charge of \$385.87 per day. The applicant compared charges with other service area facilities in a chart located in Supplemental 2, page 49-R.

In the Projected Data Chart for 30 beds with no Medicaid residents located in Supplemental 3, the applicant projects 7,522 patient days in year one and 10,222 patient days in year two with gross operating revenues of \$4,806,675 and \$6,671,205 each year, respectively. Contractual

adjustments, provisions for charity care and bad debt reduced net operating revenues to \$2,620,026.63 and \$4,084,203.98 each year. The applicant projects management fees to affiliates of \$66,101.50 and \$102,939 each year, respectively. The applicant projects a net operating income/(loss) of (\$809,459.50) in year one and \$106,957.98 in year two.

In the Projected Data Chart for 60 beds with no Medicaid residents located in Supplemental 3, the applicant projects 14,912 patient days in year one and 18,982 patient days in year two with gross operating revenues of \$9,342,090 and \$12,568,185 each year, respectively. Contractual adjustments, provisions for charity care and bad debt reduced net operating revenues to \$5,109,649.55 and \$6,821,069.08 each year. The applicant projects management fees to affiliates of \$138,828 and \$194,910 each year, respectively. The applicant projects a net operating income/(loss) of (\$116,161.84) in year one and \$549,627.43 in year two.

The Applicant owner of this facility has been in the nursing home business for many years. The management company's majority owner is also the Applicant owner, and the management company manages 38 nursing homes, 20 in Tennessee. In addition, the Applicant owner is also the majority owner of the property owner. This application represents many years of successful provision of long term care in Tennessee. The owner felt this was the best alternative to provide needed skilled care in Hamilton County.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:

The applicant, through its management company, will continue existing relationships with facilities in the area. Transfer agreements will be negotiated with acute care facilities.

Due to the need for several hundred more nursing home beds in Hamilton County, there should be no negative impact on existing facilities. Approval of this project would increase the number of beds in Hamilton County by approximately 1.6%.

The applicant anticipated staffing pattern for 30 beds is anticipated to be 2.0 FTE registered nurses, 3.0 FTE licensed practical nurses, and 8.0 FTE certified nurses aides. For 60 beds, the anticipated staffing would be 4.0 FTE registered nurses, 6.0 FTE licensed practical nurses, and 16.0 FTE certified nurses aides. Shallowford will contract with a related party therapy company who will staff therapists according to the census and rehabilitation needs. Shallowford will hire a social worker, activities director and other related positions.

The applicant will explore the option of developing further relationships with local colleges and universities after the facility is licensed.

The applicant will seek licensure from the Tennessee Department of Health, Board for Licensing Healthcare Facilities and certification from Medicare and Medicaid.

NURSING HOME SERVICES

Public Chapter No. 1112, Senate Bill No. 2463, which passed during the 1998 legislative session, amended and changed the code sections establishing the bed need formula that the Health Facilities Commission must follow when granting certificates of need for nursing home beds in Tennessee. During a fiscal year (July 1-June 30), the Commission shall issue no more than the designated number of Medicare skilled nursing facility beds for applicants filing for a certificate of need. The number of Medicare skilled nursing facility beds issued shall not exceed the allocated number of beds for each applicant. The applicant must also specify in the application the skilled services to be provided and how the applicant intends to provide such services.

A. Need

1. According to TCA 68-11-108, the need for nursing home beds shall be determined by applying the following population-based statistical methodology:

$$\text{County bed need} = .0005 \times \text{pop. 65 and under, plus}$$

.0120 x pop. 65-74, plus
 .0600 x pop. 75-84, plus
 .1500 x pop. 85, plus

Currently there are 1,689 nursing home beds in Hamilton County, with another 120 replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds. The Division of Policy, Planning, and Assessment calculated the bed need for Hamilton County to be 2,544 beds in 2014. Therefore, there is a need for 735 beds. If this applicant were to be approved along with the second application, there would still be a need for 675 beds in Hamilton County.

2. The need for nursing home beds shall be projected two years into the future from the current year, as calculated by the Department of Health.

The Division of Policy, Planning, and Assessment used the 2012 population projected two years into the future. The calculated bed need for Hamilton County is 2,544 beds in 2014. Therefore, there is a need for 735 beds.

3. The source of the current supply and utilization of licensed and CON approved nursing home beds shall be the inventory of nursing home beds maintained by the Department of Health.

The Joint Annual Reports for existing Hamilton county nursing homes have operated at 86.3%, 83.7%, and 86.5% occupancy for 2008, 2009, and 2010, respectively. At least one facility has decreased its bed count since the filing of the 2010 Joint Annual Reports. Currently there are 1,689 nursing home beds in Hamilton County, with another 120 replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds. The Division of Policy, Planning, and Assessment calculated the bed need for Hamilton County to be 2,544 beds in 2014. Therefore, there is a need for 735 beds. If this applicant were to be approved along with the second application, there would still be a need for 675 beds in Hamilton County.

4. "Service Area" shall mean the county or counties represented on an application as the reasonable area to which a health care institution intends to provide services and/or in which the majority of its service recipients reside. A majority of the population of a service area for any nursing home should reside within 30 minutes travel time from that facility.

The applicant's proposed service area is Hamilton County. The following charts illustrate the 2012 and 2016 total population projections and the age 65 and older population projections for Hamilton County.

Service Area Total Population Projections for 2012 and 2016

County	2012 Population	2016 Population	% Increase/ (Decrease)
<i>Hamilton</i>	<i>318,632</i>	<i>322,740</i>	<i>1.3%</i>

Source: Tennessee Population Projections 2000-2020, February 2008 Revision, Tennessee Department of Health, Division of Health Statistics

Service Area Age 65 and Older Population Projections for 2012 and 2016

County	2012 Population	2016 Population	% Increase/ (Decrease)
<i>Hamilton</i>	<i>49,670</i>	<i>55,524</i>	<i>11.8%</i>

Source: Tennessee Population Projections 2000-2020, February 2008 Revision, Tennessee Department of Health, Division of Health Statistics

5. The Health Facilities Commission may consider approving new nursing home beds in excess of the need standard for a service area, but the following criteria must be considered:

- a. All outstanding CON projects in the proposed service area resulting in a net increase in beds are licensed and in operation, and

The Joint Annual Reports for existing Hamilton county nursing homes have operated at 86.3%, 83.7%, and 86.5% occupancy for 2008, 2009, and 2010, respectively. At least one facility has decreased its bed count since the filing of the 2010 Joint Annual Reports. Life Care Center of Chattanooga has closed its 153 bed facility, and was approved in July of 2011 for a replacement 120 bed nursing home. Currently there are 1,689 nursing home beds in Hamilton County, with another 120 replacement beds approved but not yet in service, bringing the nursing home bed capacity to 1,809 beds.

- b. All nursing homes that serve the same service area population as the applicant have an annualized occupancy in excess of 90%.

The applicant's facility will be located in the eastern portion of Hamilton County. This is an area where nursing home beds are highly utilized. The only nursing homes close to the proposed site are Consulate Health Care of Chattanooga, which operated at 92.7%, 91.2%, and 94.8% occupancy in 2008, 2009, and 2010, respectively, and Life Care Center of Collegedale, which operated at 95.2%, 94.1%, and 93.6% occupancy for the same three years, respectively. The remaining 9 facilities operated at an average of 85.5% over the same three years.

Hamilton County Nursing Home Utilization 2010

Nursing Home	Licensed Beds	SNF Beds-Medicare	SNF/NF Beds-Dually Certified	NF Beds-Medicaid	NF-ADC (Medicaid/Level I Only)	SNF Medicare Level II ADC	NF-ADC	Licensed Occupancy
Alexian Health Care Center	114	114	0	0	0	15	85	87.8%
Life Care Center of Collegedale	124	0	124	0	38	32	82	93.6%
Life Care Center of East Ridge	160	160	0	0	0	81	26	71.4%
Life Care Center of Missionary Ridge Hixon	78	0	78	0	49	9	50	77.8%
Life Care Center of Red Bank	148	0	148	0	75	36	100	94.0%
NHC Healthcare Chattanooga	207	0	145	62	33	22	65	90.0%
Siskin Hospital	29	29	0	0	0	24	0	87.3%
Soddy Daisy Healthcare	120	0	120	0	32	26	75	84.8%
St. Barnabas Nursing Home	108	0	108	0	45	24	65	88.3%
The Health Center of Standifer	474	0	304	170				84.9%

Place								
Consulate Health Care	127	0	127	0	0	16	100	94.8%
Total	1,689	303	1,154	232	272	285	648	86.5%

Source: *Joint Annual Report of Nursing Homes 2010*, Tennessee Department of Health, Division of Health Statistics

*Life Care Center of Chattanooga was open 252 days.

**Life Care Center of Missionary Ridge changed their name to Life Care Center of Hixson, 1/27/11.

B. Occupancy and Size Standards:

1. A nursing home should maintain an average annual occupancy rate for all licensed beds of at least 90 percent after two years of operation.

The applicant expects to exceed this guideline.

2. There shall be no additional nursing home beds approved for a service area unless each existing facility with 50 beds or more has achieved an average annual occupancy rate of 95 percent. The circumstances of any nursing home, which has been identified by the Regional Administrator, as consistently noncomplying with quality assurance regulations shall be considered in determining the service areas, average occupancy rate.

Only four facilities operated at or above 90% in 2010. See utilization chart above.

3. A nursing home seeking approval to expand its bed capacity must have maintained an occupancy rate of 95 percent for the previous year.

This criterion is not applicable, as this is a new facility.

4. A free-standing nursing home shall have a capacity of at least 30 beds in order to be approved. The Health Facilities Commission may make an exception to this standard. A facility of less than 30 beds may be located in a sparsely populated rural area where the population is not sufficient to justify a larger facility. Also, a project may be developed in conjunction with a retirement center where only a limited number of beds are needed for the residents of that retirement center.

The applicant complies with this criterion.



Michael D. Brent
Partner
Direct: (615) 252-2361
mbrent@babco.com

2012 OCT 30 AM 10:08

October 29, 2012

VIA email and US Mail

Ms. Melanie Hill
Tennessee Health Services & Development Agency
500 Deaderick Street, Suite 850
Nashville, Tennessee 37243

Re: Opposition to Shallowford Healthcare, LLC
(CN1206-028 and CN1207-032)

Dear Melanie:

On behalf of LP Cleveland, LLC, d/b/a Signature Healthcare of Cleveland, we respectfully oppose the above referenced requests of Shallowford Healthcare, LLC for the approval of two new thirty bed nursing homes, which we understand are proposed to eventually be combined to operate as a single sixty bed facility. We, along with other representatives of Signature Healthcare, intend to be present at the Agency meeting on November 14, 2012 to further express our opposition, as we do not believe the applications meet the applicable requirements as to need, orderly development and other factors.

If you have any questions or need anything further, please do not hesitate to contact me.

Very truly yours,

BRADLEY ARANT BOULT CUMMINGS, LLP


Michael D. Brent

MDB/

CC: Graham Baker, Esq. (via eMail)
Lisa Stephenson, Esq. (via eMail)

7/2991509.2